

“A unique voice on money,
one singularly attuned to...his generation.”

—SAN FRANCISCO CHRONICLE

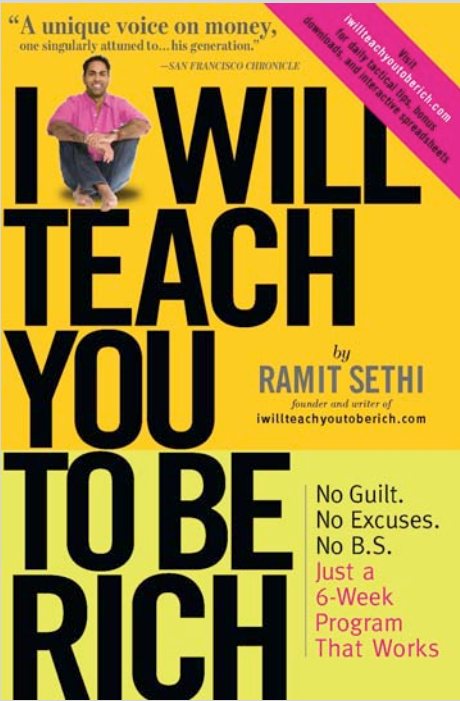


I WILL TEACH YOU TO BE RICH

by
RAMIT SETHI
founder and writer of
iwillteachyoutoberich.com

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About the book

At last, for a generation that's materially ambitious yet financially clueless comes *I Will Teach You To Be Rich*, Ramit Sethi's 6-week personal finance program for 20-to-35-year-olds. A completely practical approach based around the four pillars of personal finance—banking, saving, budgeting, and investing—and the wealth-building ideas of personal entrepreneurship.

Additional Praise for Ramit Sethi and *I Will Teach You to Be Rich*

“Ramit Sethi is a rising star in the world of personal finance writing. . . one singularly attuned to the sensibilities of his generation. . . . His style is part frat boy and part Silicon Valley geek, with a little bit of San Francisco hipster thrown in.”

—SAN FRANCISCO CHRONICLE

“The easiest way to get rich is to inherit. This is the second best way—knowledge and some discipline. If you’re bold enough to do the right thing, Ramit will show you how. Highly recommended.”

—SETH GODIN, AUTHOR OF *TRIBES*

“You’ve probably never bought a book on personal finance, but this one could be the best \$13.95 you ever spent. It’ll pay for itself by the end of Chapter 1 (check out the box on page 24 to see what I mean).”

—PENELOPE TRUNK, AUTHOR OF *BRAZEN CAREERIST: THE NEW RULES FOR SUCCESS*

“Most students never learn the basics of money management and get caught up in the white noise and hype generated by the personal-finance media. Ramit’s like the guy you wish you knew in college who would sit down with you over a beer and fill you in on what you really need to know about money—no sales pitch, just good advice.”

—CHRISTOPHER STEVENSON, CREDIT UNION EXECUTIVES SOCIETY

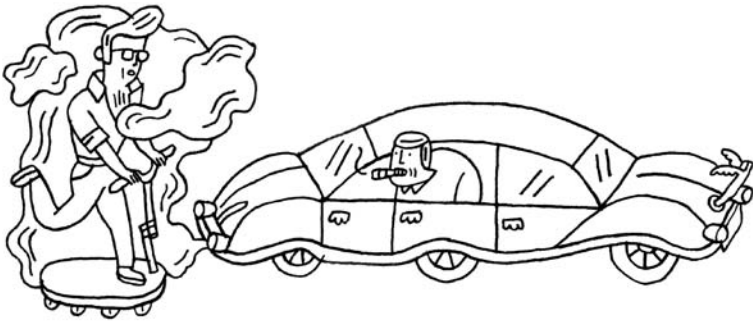
“Smart, bold, and practical. *I Will Teach You to Be Rich* is packed with tips that actually work. This is a great guide to money management for twentysomethings—and everybody else.”

—J.D. ROTH, EDITOR, GETRICHSLOWLY.ORG

“Ramit demystifies complex concepts with wit and an expert understanding of finances. Not only is this book informative, it’s fun and includes fresh tips that will help anyone master their finances.”

—GEORGE HOFHEIMER, CHIEF RESEARCH OFFICER,
FILENE RESEARCH INSTITUTE

WOULD YOU RATHER BE SEXY OR RICH?



I've always wondered why so many people get fat after college. I'm not talking about people with medical disorders, but regular people who were slim in college and vowed that they would "never, ever" get fat. Five years later, they look like the Stay Puft Marshmallow Man after a Thanksgiving feast, featuring a blue whale for dessert.

Weight gain doesn't happen overnight. If it did, it would be easy for us to see it coming—and to take steps to avoid it. Ounce by ounce, it creeps up on us as we're driving to work and then sitting behind a computer for eight to ten hours a day. It happens when we move into the real world from a college campus populated by bicyclists, runners, and varsity athletes who once inspired us to keep fit (or guilted us into it). When we did the walk of shame back at school, at least we were getting exercise. But try talking about post-college weight loss with your friends and see if they ever say one of these things:

“Avoid carbs!”

“Don’t eat before you go to bed, because fat doesn’t burn efficiently when you’re sleeping.”

“If you eat mostly protein, you can lose lots of weight quickly.”

“Eating grapefruit in the morning speeds up your metabolism.”

I always laugh when I hear these things. Maybe they’re correct, or maybe they’re not, but that’s not really the point.

The point is that we love to debate minutiae.

When it comes to weight loss, 99.99 percent of us need to know only two things: Eat less and exercise more. Only elite athletes need to do more. But instead of accepting these simple truths and acting on them, we discuss trans fats, diet pills, and Atkins versus South Beach.

WHY ARE MONEY AND FOOD SO SIMILAR?

When it comes to food, we . . .	When it comes to personal finance, we . . .
don’t track calorie intake	don’t track spending
eat more than we know	spend more than we realize— or admit
debate minutiae about calories, diets, and workouts	debate minutiae about interest rates and hot stocks
value anecdotal advice over research	listen to friends, our parents, and TV talking heads instead of reading a few good personal- finance books

Most of us fall into one of two camps as regards our money: We either ignore it and feel guilty, or we obsess over financial details by arguing interest rates and geopolitical risks without taking action. Both options yield the same results—none. The truth is that the vast majority of young people don’t need a financial adviser to help them get rich. We need to set up accounts at a reliable no-fee bank and then automate savings and bill payment. We need to know about a few things to invest in, and then we need to let our money grow for thirty years. But that’s not sexy, is it? Instead, we watch shows with talking heads who make endless predictions about the economy and “this year’s hottest stock”

without ever being held accountable for their picks (which are wrong more than 50 percent of the time). Sometimes they throw chairs, which drives up ratings but not much else. And we look to these so-called “experts” more than ever in turbulent times like the global crisis of 2008. “It’s going up!” “No, down.” As long as there is *something* being said, we’re drawn to it.

Why? Because we love to debate minutiae.

When we do, we somehow feel satisfied. We might just be spinning our wheels and failing to change anyone’s mind, but we feel as if we are really expressing ourselves, and it’s a good feeling. We feel like we’re getting somewhere. The problem is that this feeling is totally illusory. Focusing on these details is the easiest way to get nothing done. Imagine the last time you and your friend talked about finances or fitness. Did you go for a run afterward? Did you send money to your savings account? Of course not.

People love to argue minor points, partially because they feel it absolves them from actually having to do anything. You know what? Let the fools debate the details. I decided to learn about money by taking small steps to manage my own spending. Just as you don’t have to be a certified nutritionist to lose weight or an automotive engineer to drive a car, you don’t have to know everything about personal finance to be rich. I’ll repeat myself: *You don’t have to be an expert to get rich. You do have to know how to cut through all the information and get started*—which, incidentally, also helps reduce the guilt.

Although I knew that opening an investment account would be a smart financial move, I set up a lot of barriers for myself. “Joey,” I said, “you don’t know the difference between a Roth IRA and a traditional IRA. There’s probably a lot of paperwork involved in getting one of those started anyway, and once it’s set up, it’s going to be a pain to manage. What if you choose the wrong funds? You already have a savings account; what’s wrong with just having that?” Clearly this was the voice of my lazy half trying to talk my body into staying on the couch and not taking action.

—JOEY SCHOBLASKA, 22

Who wins at the end of the day? The self-satisfied people who heatedly debate some obscure details? Or the people who sidestep the entire debate and get started?

Why Is Managing Money So Hard?

People have lots and lots of reasons for not managing their money, some of them valid but most of them poorly veiled excuses for laziness. Yeah, I'm talking to you. Let's look at a few:

INFO GLUT

The idea that—gasp!—there is too much information is a real and valid concern. “But Ramit,” you might say, “that flies in the face of all American culture! We need more information so we can make better decisions! People on TV say this all the time, so it must be true! Huzzah!” Sorry, nope. Look at the actual data and you'll see that an abundance of information can lead to decision paralysis, a fancy way of saying that with too much information, we do nothing. Barry Schwartz writes about this in *The Paradox of Choice: Why More Is Less*:

... As the number of mutual funds in a 401(k) plan offered to employees goes up, the likelihood that they will choose a fund—any fund—goes down. For every 10 funds added to the array of options, the rate of participation drops 2 percent. And for those who do invest, added fund options increase the chances that employees will invest in ultraconservative money-market funds.

You turn on the TV and see ads about stocks, 401(k)s, Roth IRAs, insurance, 529s, and international investing. Where do you start? Are you already too late? What do you do? Too often, the answer is nothing—and doing nothing is the worst choice you can make, especially in your twenties. As the table on the next page shows, investing early is the best thing you can do.

Look carefully at that chart. Smart Sally actually invests less, but ends up with about \$80,000 more. She invests \$100/month from age twenty-five to age thirty-five and then never touches that money again. Dumb Dan is too preoccupied to worry about money until he's thirty-five,

WOULD YOU RATHER BE SEXY OR RICH?

at which point he starts investing \$100/month until he's sixty-five. In other words, Smart Sally invests for ten years and Dumb Dan for thirty years—but Smart Sally has much more money. And that's just with \$100/month! The single most important thing you can do to be rich is to start early.

HOW TO MAKE \$80,000 MORE THAN YOUR FRIENDS (WITH LESS WORK)

	Smart Sally	Dumb Dan
When beginning to invest, the person is . . .	25 years old	35 years old
Each person invests \$100/month for . . .	10 years	30 years
With an 8 percent rate of return, at age 65, their accounts are worth . . .	\$349,856. Voilà—the value of starting early	\$271,879. Even though he invested for three times as long, he's behind by \$80,000

THE MEDIA IS PARTIALLY TO BLAME (I LOVE CASTING BLAME)

Why does just about everything written about personal finance make me want to paint myself with honey and jump into a nest of fire ants? Personal-finance advice has been geared toward old white men and taught by old white men for far too long. I don't understand why newspaper columnists continue to write about tax-optimization strategies and spending less on lattes, hoping that young people will listen. We don't care about that. We care about knowing where our money's going and redirecting it to go where we *want* it to go. We want our money to grow automatically, in accounts that don't nickel-and-dime us with fees. And we don't want to have to become financial experts to get rich.

Now, I fully recognize that I'm a big fancy author (that's right, ladies) and am therefore part of the "media." Perhaps it's uncouth to mock

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GET RICH.**

my brethren. Still, I can't help myself. Pick up any major magazine and chances are you'll see an article called "10 No-Hassle Tips for Getting Ahead with Your Finances." Amusingly, the same writers who breathlessly encouraged us to buy real estate in 2007 are now advising us on "what to do in the downturn." I'm sick and tired of the same old boring, tired, and frankly horrible financial opinions that are paraded around as "advice." More on this in Chapter 6.

OTHER PEOPLE WE CAN BLAME FOR OUR MONEY PROBLEMS

There are other common excuses for why we don't manage our money. Most of them are complete B.S.:

- "Our education system doesn't teach this," people whine. It's easy for people in their twenties to wish that their colleges had offered some personal-finance training. Guess what? Most colleges *do* offer those classes. You just didn't attend!
- I also often hear the cry that "credit-card companies and banks are out to profit off us." Yes, they are. So stop complaining and learn how to game the companies instead of letting them game you.
- "I'm afraid of losing money," some of my friends say. That's fair, especially after market losses during the global financial crisis, but you need to take a long-term view. Also, you can choose among many different investment options—some aggressive, some conservative—it depends on how much risk you're willing to take. (Because of inflation, you're actually losing money every day your money is sitting in a bank account.) Fear is no excuse to do nothing with your money. When others are scared, there are bargains to be found.
- "What if I don't know where to get an extra \$100 per month?" It doesn't have to be \$100. And you don't need to earn another penny. I'll show you how to streamline your existing spending to generate that money to invest. Remember, \$1 saved per day is \$30 saved per month.

Too many of us are paralyzed by the thought that we have to get every single part of our personal finances in order before truly getting started managing our money. Should I use my 401(k) from work or open an IRA? Should I go for mutual funds or individual stocks? Do I need a variable

annuity? Here's my answer: Do you need to be the Iron Chef to cook a grilled-cheese sandwich? No, and once you make your first meal, it'll be easier to cook the next most complicated thing. The single most important factor to getting rich is getting started, not being the smartest person in the room.

Put the Excuses Aside

Listen up, crybabies: This isn't your grandma's house and I'm not going to bake you cookies and coddle you. A lot of your financial problems are caused by one person: you. Instead of blaming "the economy" and corporate America for your financial situation, you need to focus on what you can change yourself. Just as the diet industry has overwhelmed us with too many choices, personal finance is a confusing mess of overblown hype, myths, outright deception—and us, feeling guilty about not doing enough or not doing it right. But we can't just blame corporations and the media: With both food and money, we're not taking personal responsibility to step up, learn this stuff, and get started. The result is that many of us end up fat, consumption-minded, and poor. No, seriously: Two-thirds of Americans are overweight or obese, and the average American is nearly \$7,000 in debt.

**BECAUSE OF
INFLATION,
YOU'RE ACTUALLY
LOSING MONEY
EVERY DAY
YOUR MONEY
IS SITTING IN A
BANK ACCOUNT.**

In 2008, when the global financial crisis really erupted in the stock market, the first thing many people did was pull their money out of the market. That's almost always a bad move. They compounded one mistake—not having a diversified portfolio—with a second: buying high and selling low. For all the people who blamed the government, CEOs, and evil banks, had any of them read *one* personal finance book? And yet they expected to get ahead with their money?

Let's put the excuses aside. What if you could consciously decide how to spend your money, rather than say, "I guess that's how much I spent

last month”? What if you could build an automatic infrastructure that made all your accounts work together and automated your savings? What if you could invest simply and regularly without fear? Guess what? You can! I’ll show you how to take the money you’re making and redirect it to the places you want it to go—including substantially growing your money over the long term, no matter what the economy is like.

The Key Messages of *I Will Teach You to Be Rich*

I believe in small steps. I want to reduce the number of choices that paralyze us. It’s more important to get started than to spend an exhaustive amount of time researching the best fund in the universe. *I Will Teach You to Be Rich* is about taking the first step—understanding the barriers that keep us from managing our money—and then tearing them down and putting our money in the right places so we can achieve our goals. Frankly, your goal probably isn’t to become a financial expert. It’s to live your life and let money serve you. So instead of saying, “How much money do I need to make?” you’ll say, “What do I want to do with my life—and how can I use money to do it?” And instead of being driven by fear, you’ll be guided by what history has shown us about investing and growth.

I’ll keep it simple: Too many books try to cover everything about money, leaving you holding a book that you “should” read but don’t because it’s overwhelming. I want you to know enough to get started setting up automated accounts and investing, even with just \$50. So here are the essential messages of *I Will Teach You to Be Rich*:

The 85 Percent Solution: Getting started is more important than becoming an expert. Too many of us get overwhelmed thinking we need to manage our money perfectly, which leads us to do nothing at all. That’s why the easiest way to manage your money is to take it one step at a time—and not worry about being perfect. I’d rather act and get it 85 percent right than do nothing. Think about it: 85 percent of the way is far better than 0 percent. Once your money system is good enough—or 85 percent of the way there—you can get on with your life and go do the things you really want to do.

It's okay to make mistakes. It's better to make them together now, with a little bit of money, so that when you have more, you'll know what to avoid.

Ordinary actions get ordinary results. Most people are, by definition, ordinary. Yet more than half of a group of college graduates surveyed said they plan to be millionaires by the age of forty, an expectation that is not in line with reality. Look around you: How many of our parents are millionaires? Not many. And if we follow the same ordinary route they did, we'll end up ordinary, too. To be extraordinary, you don't have to be a genius, but you do need to take some different steps than your folks did (like starting to manage your money and investing early).

There's a difference between being sexy and being rich. When I hear people talk about the stocks they bought, sold, or shorted last week, I realize that my investment style sounds pretty boring: "Well, I bought a few good funds five years ago and haven't done anything since, except buy more on an automatic schedule." But investment isn't about being sexy—it's about making money, and when you look at investment literature, buy-and-hold investing wins over the long term, every time. Forget what that money TV station or finance magazine says about the stock-of-the-month. Do some analysis, make your decision, and then reevaluate your investment every six months or so. It's not as sexy as those guys in red coats shouting and waving their hands on TV, but as an individual investor, you'll get far greater returns.

Spend extravagantly on the things you love, and cut costs mercilessly on the things you don't. This book isn't about telling you to stop buying lattes. Instead, it's about being able to actually spend *more* on the things you love by not spending money on all the knucklehead things you don't care about. Look, it's easy to want the best of everything: We want to go out all the time, live in a great apartment, buy new clothes, drive a new car, and travel any time we want. The truth is, you have to prioritize. My friend Jim once called to tell me that he'd gotten a raise at work. On the same day, he moved into a smaller apartment. Why? Because he doesn't care very much about where he lives, but he loves spending money on camping and biking. That's called conscious spending. (Learn how one of my friends consciously spends \$21,000 per year going out on page 98.)

I Will Teach You to Be Rich is about sensible banking, budgeting, saving, and investing. I'll teach you how to set up your accounts to create an automatic financial infrastructure that will run smoothly with minimal intervention. You'll also learn what to avoid, some surprising findings from financial literature (is real estate really a good investment?), and how to avoid common financial mistakes. And you'll start taking action instead of debating minutiae. All this will take you just six weeks—then you'll be on the road to being rich. Doesn't that sound good?

When I was in high school, my parents told me that if I wanted to go to college, I'd need to pay for it with scholarships. So like a good Indian son, I started applying . . . and applying and applying. In the end, I'd applied for about sixty scholarships and had won hundreds of thousands of dollars.

But my best scholarship was the first one—an award for \$2,000. The organization wrote a check directly to me. I took it and invested in the stock market—and immediately lost half my money.

Oops. That's when I decided that I really needed to learn about money. I read the personal-finance books, watched the TV shows, and bought the magazines. After a while, I also started sharing what I'd learned. I taught informal classes to friends at Stanford. Then, in 2004, I began writing a blog called “I Will Teach You to Be Rich,” where I cover the basics of saving, banking, budgeting, and investing. The rest, as they say, is history.

Why Do You Want to Be Rich?

I've talked to more than a million young people about personal finance over the last four years through my website and speaking engagements. When I do, I always ask two questions:

Why do you want to be rich?

What does being rich mean to you?

Most people never spend even ten minutes thinking through what *rich* means to them. Suckers. Here's a hint: It's different for everyone, and money is just a small part of being rich. For example, my friends all value different things. Dan loves eating out at super gourmet restaurants

where a meal might cost \$100. Anton loves traveling. And Jen loves buying jeans. If you don't consciously choose what *rich* means, it's easy to end up mindlessly trying to keep up with your friends. I consider myself rich now that I can do these things:

- *Make career decisions because I want to, not because of money*
- *Help my parents with their retirement, so they don't have to work if they don't want to*
- *Spend extravagantly on the things I love and be relentlessly frugal about the things I don't (e.g., spend lots on visiting family in New York, but don't buy the flashiest sports car)*
- *Start a scholarship fund for young entrepreneurs (launched in May 2006!)*

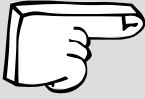
Before you go further, I encourage you to set your goals today. Why do you want to be rich? What do you want to do with your wealth?

What You'll Get Out of This Book

I love to laugh at people when they talk about investing. People think that investing means “buying stocks,” so they throw around fancy terms like *hedge funds*, *derivatives*, and *call options*. Sadly, they actually think you need this level of complexity to get rich because they see people talking about this stuff on TV each day. Guess what? For individual investors like you and me, these options are completely irrelevant.

It sounds sexy, but when individual investors talk about complicated concepts like this, it's like two elementary school tennis players arguing about the string tension of their racquets. Sure, it might matter a little, but they'd be much better tennis players if they just went outside and hit some balls for a few hours each day.

Simple, long-term investing works. This idea gets nothing but yawns and rolling eyes during a conversation. But you need to make a decision: Do you want to sit around impressing others with your sexy vocabulary, or do you want to join me on my gold-lined throne as we're fed grapes and fanned with palm fronds?



SIX
WEEKS OF
ACTION
STEPS

I Will Teach You to Be Rich will help you figure out where your money is going and redirect it to where you *want* it to go. Saving for a vacation to China? A wedding? Just want to make your money grow? Here's the six-week program that will let you tackle it.

IN WEEK 1, you'll set up your credit cards and learn how to improve your credit history (and why that's so important).

IN WEEK 2, you'll set up the right bank accounts, including negotiating to get no-fee, high-interest accounts.

IN WEEK 3, you'll open a 401(k) and an investment account (even if you have just \$50 to start).

IN WEEK 4, you'll figure out how much you're spending. And then you'll figure out how to make your money go where you want it to go.

IN WEEK 5, you'll automate your new infrastructure to make your accounts play together nicely.

IN WEEK 6, you'll learn why investing isn't the same as picking stocks—and how you can get the most out of the market with very little work.

Plus, there's plenty more. You'll learn to choose a low-cost automatic portfolio that beats typical Wall Street portfolios, and how to maintain your investments by setting up a system that enables you to remain as hands-off as possible while your money accumulates automatically. There are even answers to many specific money questions, including how to buy a car, pay for a wedding, and negotiate your salary.

After reading this book, you'll be better prepared to manage your finances than 99 percent of other people in their twenties and early thirties. You'll know what accounts to open up, ways not to pay your bank extra fees, how to invest, how to think about money, and how to see through a lot of the hype that you see on TV and in magazines every day.

There aren't any secrets to getting rich—it just takes small steps and some discipline, and you can do it with just a little bit of work. Now let's get started.

OPTIMIZE YOUR CREDIT CARDS

How to beat the credit card companies at their own game



You'll never see an Indian driving a two-door coupe. Seriously, think about it. If you have a neighborhood Indian—let's call him Raj—he's probably driving a four-door car, usually a Honda Accord or Toyota Camry. However, Indian people aren't just fanatical about driving practical four-door cars. We're absolutely nuts about hammering down the price to the last penny. Take my dad, for example. He'll bargain for *five straight days* just to buy one car. Dear God, it's not pretty. I've been along for the ride on these weeklong negotiating sessions with him before. Once, as he was literally about to sign the papers, he stopped, asked them to throw in free floor mats (a \$50 value), and *walked away when they refused*. This, after he'd spent five days bargaining them down. As he dragged me from the dealership, I just stared straight ahead, shell-shocked.

As you can imagine, by the time I went to buy my own car, I had been steeped in a rich tradition of negotiating. I knew how to make unreasonable demands with a straight face and never take no for an answer. I took a

more modern approach, however: Instead of spending a week going from dealership to dealership, I simply invited seventeen dealers in northern California to bid against one another for my business while I sat at home, watched *The Real World*, and calmly reviewed the e-mails and faxes as they came in. (For more about buying a car, see page 244.) In the end, I found a great deal in Palo Alto and walked in ready to sign the papers. Everything was going smoothly until the dealer went to check my credit. He came back smiling. “You know, you have the best credit of anyone I’ve ever seen at your age,” he said.

“Thanks,” I replied, actually wanting to say, “AWWW, YEAH, I KNEW IT.” That is because I am a weird twentysomething Indian who chooses a four-door Accord for his dream car and prides himself on his credit score.

Then the dealer said, “Hmm.”

“Hmm?” I asked.

“Well,” he said, “it looks like you have great credit, but not enough credit sources.” The bottom line, he told me, was that they couldn’t offer me the low-interest option we had talked about. Instead of 1.9 percent interest, it would be 4.9 percent. That didn’t sound like much, but I pulled out a notepad and did a quick calculation. The difference would be more than \$2,200 over the life of my car loan. Because I was getting such a great deal on the car, I convinced myself that the higher interest rate was okay, and I signed the papers for the loan. But I was still pissed. Why should I have to pay an extra two grand when I had great credit?

How Credit Can Help You Be Rich

People love to pick sexy investments and use fancy words like *distressed securities* and *EBITDA* when they focus on getting rich. But they often ignore something that is so simple, so basic, that it just doesn’t seem important: their credit. Ironically, credit is one of the most vital factors in getting rich, but because it’s hard to wrap our minds around it, we often overlook it entirely. It’s time to wake up and pay attention to it (and not just because of the credit crisis), because establishing good credit is the first step in building an infrastructure for getting rich. Think about it: Our largest purchases are almost always

made on credit, and people with good credit save tens of thousands of dollars on these purchases. Credit has a far greater impact on your finances than saving a few dollars a day on a cup of coffee.

What you saw in 2008 was the unraveling of credit, including personal spending that relied on phantom credit from credit cards and home equity. Those days of easy credit are gone (at least for a while until Americans forget history and do it all over again). So understanding your credit is more important than ever.

There are two main components to credit (also known as your credit history): the credit report and the credit score. These boring terms can actually save you tens of thousands of dollars over your lifetime, so listen up. This is what will enable you to justify heading to Vegas and staying at the Hugh Hefner suite at the Palms.

CREDIT SCORE VS. CREDIT REPORT

What your credit score is based on:	What your credit report includes:
35% payment history (How reliable you are. Late payments hurt you.)	■ Basic identification information
30% amounts owed (How much you owe and how much credit you have available, or your credit utilization rate.)	■ A list of all your credit accounts
15% length of history (How long you've had credit.)	■ Your credit history, or whom you've paid, how consistently, and any late payments
10% new credit (Older accounts are better because they show you're reliable.)	■ Amount of loans
10% types of credit (For example, credit cards, student loans. Varied is better.)	■ Credit inquiries, or who else has requested your credit (like other lenders)
Get your credit score at www.myfico.com for about \$15.	Get your free credit report once a year at www.annualcreditreport.com .

Your **credit report** gives potential lenders—the people who are considering lending you money for a car or home—basic information about you, your accounts, and your payment history. In general, it tracks all credit-related activities, although recent activities are given higher weight.

Your **credit score** (often called your FICO score because it was created by the Fair Isaac Corporation) is a single, easy-to-read number between 300 and 850 that represents your credit risk to lenders. It's like Cliff's Notes for the credit industry. The lenders take this number (higher is better) and, with a few other pieces of information, such as your salary and age, decide if they'll lend you money for credit like a credit card, mortgage, or car loan. They'll charge you more or less for the loan, depending on the score, which signifies how risky you are.

It's ridiculously easy to check your credit score and credit report—and you should do it right now. Once a year, by law, you're allowed to obtain your credit report for free at www.annualcreditreport.com. It includes basic information about all your accounts and payment history. Be careful to type that URL correctly, not the one that first comes to mind when you think “free credit report.”

To get your credit *score*, on the other hand, you'll have to pay. I recommend getting the basic credit report, which will run you about \$15. You'll get the option to pick any of the three major reporting agencies. Just pick any one—it doesn't really matter.

Why are your credit report and credit score important? Because a good credit score can save you hundreds of thousands of dollars in interest charges. How? Well, if you have good credit, it makes you less risky to lenders, meaning they can offer you a better interest rate on loans. “But Ramit,” you might say naively, “I don't care about this. I don't need to borrow money.” Maybe you don't today. But in three or four years, you might need to start thinking about a wedding or a house. What about cars? Vacations? Those ridiculous baby cribs that cost \$7,000? And it goes on and on.

So please don't scoff or dismiss what you just read. One of the key differences between rich people and everyone else is that rich people plan before they need to plan.

If you doubt that a loan's interest rate really makes that much of a difference, check out the following table. Assuming you borrowed \$200,000 for a 30-year mortgage, look at the differences in what you'd pay based on your credit score.

HOW CREDIT SCORES AFFECT WHAT YOU PAY

On a \$200,000 30-year mortgage, if your FICO score is your APR* (interest rate) will be with interest, you'll pay a total of . . .
760–850 (best range)	4.384%	\$359,867
700–759	4.606%	\$369,364
680–699	4.783%	\$377,021
660–679	4.997%	\$386,381
640–659	5.427%	\$405,515
620–639 (worst range)	5.973%	\$430,427

*APR calculated in January 2009.

As you can see, a high credit score can save you hundreds of thousands of dollars over your lifetime—and that's just on a mortgage. While other people spend many hours cutting coupons, growing food in their gardens to save on grocery bills, or being frugal with lattes, they're failing to see the bigger picture. It's fine to be frugal, but you should focus on spending time on the things that matter, the *big wins*. So, let's dig into tactics for improving your credit, which is quantifiably worth much more than any advice about frugality.

Building Credit with Credit Cards

Credit comes in many forms (car loans, mortgages, and so on), but we're going to start with credit cards because almost all of us have one, and most important, they're the fastest and most concrete way to optimize your credit. Most people are making at least one or two major mistakes with their credit cards. The good news is that it's incredibly easy to fix this by learning a little bit about how credit cards work.

GUESS HOW MUCH AN IPOD COSTS IF YOU FINANCE IT WITH A CREDIT CARD?

One of the biggest problems with credit cards is the hidden cost of using them. It may be incredibly convenient to swipe your card at every retailer, but if you don't pay your bill the same month, you'll end up owing way more than you realize. Take, for instance, an iPod. It looks like it costs \$250, but if you buy it using a credit card with the average 14% APR and a 4% minimum payment, and then only pay the minimum each month, you'll be out almost 20 percent more in total.

Let's say you buy this . . .	Paying minimum payments, it will take this long to pay it off . . .	You'll pay this much in interest . . .
\$250 iPod	2 years 6 months	\$47
\$1,500 computer	7 years 9 months	\$562
\$10,000 furniture	13 years 3 months	\$4,062

If you paid only the minimum monthly balance on your \$10,000 purchase, it would take you more than 13 years and cost you more than \$4,000 in interest alone. Remember, this doesn't even factor in your "opportunity cost": Instead of paying off a \$10,000 sofa for 13 years, if you'd invested the same amount and earned 8%, it would've turned into about \$27,000! Try calculating how much your own purchases really cost at www.bankrate.com/brm/calc/minpayment.asp

From one perspective, credit cards are like a delightful gift from heaven. If you pay your bill on time, they're actually a free short-term loan. They help you keep track of your spending much more easily than cash, and they let you download your transaction history for free. Most offer free warranty extensions on your purchases and free rental car insurance. But unfortunately, there's more to them than that.

Credit cards are also convenient enemies. Almost everyone has a bad story about late fees, unauthorized charges, or overspending. Not surprisingly, many pundits (and parents) have a knee-jerk reaction to credit cards: "Using credit cards is the worst financial decision you can make," they shout. "Cut them all up!" What an easy battle cry for people who want simple solutions and don't realize the benefits of multiple sources of credit.

The truth about credit cards lies somewhere between these two extremes. As long as you manage them well, they're worth having. But if you don't completely pay off your bill at the end of the month, you'll owe an enormous amount of interest on the remainder, usually about 14 percent. This is what's known as the annual percentage rate, or APR. Credit card companies also tack on a whopping fee every time you miss a payment—usually around \$35. And don't forget the fees for making a payment even just a day or two late. It's also easy to overuse credit cards and find yourself in debt, as most American credit card users have done.

Most of us don't think about these fees. We just charge away and then make our monthly payments, right? Unfortunately, although they're not obvious, credit card charges are some of the largest unnecessary fees you'll ever pay—much more than the costs of eating out once a week or buying that nice outfit you've been eyeing.

This isn't meant to scare you away from using credit cards. In fact, I encourage you to use credit cards *responsibly*. If you can avoid the unreasonable fees and tricks, credit cards offer exceptional benefits (more on this later). To get the most out of using credit, you need to optimize your credit card(s) and use them as a spearhead to improve your overall credit. This is all the more important in the wake of the credit crisis; if you don't have good credit, it may be difficult to get an affordable home loan—even if you have a high income. By the end of this chapter, you'll know how to squeeze the credit card companies for everything they're worth—without paying unnecessary fees or late charges—and you'll know how to use your cards to boost your all-important credit score. Let's do it.

Getting a New Card

Whether you've never had a credit card before or you're thinking about getting an additional card, there are a few things to think about.

Avoid those credit card offers you receive in the mail. Let's cut to the chase: If you hate those credit card offers in the mail as much as I do, visit www.optoutprescreen.com to get off their lists. The average American

receives twenty credit card offers every year, and four out of every thousand people accept them. The numbers are markedly different for students. Out of every thousand students who are mailed offers, 150 accept them, an astonishingly high number. Students—and young people in general—are especially susceptible to these offers because they don't know any better. Let's get real. Taking a credit card offer you get in the mail is like marrying the first person who touches your arm—99 percent of the time it's the easy decision, not the right one. Most people know better and go out and find what's best for them; they don't just settle for the horrible offers that fall in their lap. For something as important as your credit, make the effort and pick a good card.

Avoid cash-back cards, which don't actually pay you much cash. People get really mad at me when I say this, but cash-back cards are worthless. "Get 1 percent back on all your spending!" Wow, if I spend \$2,000 per

Getting a Credit Card When You Have No Income

A while ago, one of my friends called me and asked if she could borrow my credit card to buy something online. "How come? Don't you have a credit card?" I asked. Given all the benefits of having a card (assuming you use it wisely), you can imagine how angry I was when I learned that she didn't have a card of her own. In my mind, this was the equivalent of one of Dr. Koop's friends being morbidly obese because of eating only butter.

Anyway, I told her to get a credit card and start building her credit. Her response: "I can't get approved for a credit card because I have no income."

Okay, fair enough. Getting your first credit card can be tricky, especially if you're young. But there's an easy solution: Get a secured credit card. These are cards that require you to put down a few hundred bucks in a savings account, and then the bank uses that as collateral to issue you credit. After a few months, assuming you've behaved responsibly, you can graduate to a regular ("unsecured") credit card. To get one, call your bank and ask about it.

month on my credit card, I'll get back \$20. "But Ramit," you might say, "twenty dollars is better than nothing." Sure, but what if you could save more by getting a free \$500 flight? It wouldn't be as obvious as receiving money each month, but in the long term, you'd save more with a travel rewards card.

Compare cards online. The best way to find a card that is right for you is by researching different offers online (try www.bankrate.com). In most cases, the simplest credit cards are offered by your bank, so this is often a good place to look. They'll connect with your bank account and you can choose from a variety of options, including credit limit, rewards, and more. On the plus side, they're easy to get without much research. The downside is that the rewards are usually fairly mediocre.

Rewards are important. You're going to be using this card a fair amount, so make sure the rewards it offers are something you'll actually want. I travel a lot, so I got an airline card that gives me free companion tickets, free flights, and points for every dollar I spend and every mile I fly. I get multiple free flights per year, and each one saves me about \$350. But if you hardly ever travel, this card wouldn't make sense for you. Bottom line: If you're getting a rewards card, find one that gives you something you value.

Don't go card crazy. Now that you're in the market, you might be tempted by any number of card offers. But don't overdo it. There's no magic number of cards you should have. But each additional card you get means added complexity for your personal-finance system. Two or three is a good rule of thumb. (The average American has four credit cards.) Your credit score is based on overall sources of credit. Remember, there are other sources of credit besides credit cards. These include installment loans (such as auto loans), personal lines of credit, home equity lines of credit, and service credit (such as utilities). "Take it slow," Craig Watts of Fair Isaac Corporation says, cautioning against prescribing a specific number of credit sources. "It depends on how long you've been managing credit. The less information in your credit report, the higher the prominence of each new report. For example, if you're in college and you only have one credit card in your name, when you open another account, the weight of that action is more than it would be ten years down the line. If you limit yourself to opening one card a year, you'll be doing yourself a favor."

The Six Commandments of Credit Cards

Now it's time to take full advantage of your cards as a means to improving your credit. Optimizing your credit is a multi-step process. One of the most important factors is getting out of debt, which we'll tackle at the end of the chapter. But first, we'll set up automatic credit card payments so you never miss a payment again. Then, we'll see how to cut fees, get better rewards, and take everything you can from the credit card companies. (Hey, it's business, and they're in it to get your money, too.)

1. Pay off your credit card regularly.

Yeah, we've all heard it, but what you may not know is that your debt payment history represents 35 percent of your credit score—the largest chunk. In fact, the single most important thing you can do to improve your

Awful Consequences

If you miss even one payment on your credit card, here are four terrible, horrible, no good, very bad results you may face:

- 1.** Your credit score can drop more than 100 points, which would add \$240/month to an average thirty-year fixed-mortgage loan.
- 2.** Your APR can go up to 30 percent.
- 3.** You'll be charged a late fee, usually around \$35.
- 4.** Your late payment can trigger rate increases on your other credit cards as well, even if you've never been late on them. (I find this fact amazing.)

Don't get too freaked out: You can recover from the hit to your credit score, usually within a few months. In fact, if you're just a few days late with your payment, you may incur a fee, but it generally won't be reported to the credit bureaus. Turn the page to find out what to do if you miss a payment.

credit is to pay your bills on time. Whether you're paying the full amount of your credit card bill or risking my wrath by paying just part of it, *pay it on time*. Lenders like prompt payers, so don't give your credit card company the opportunity to raise your rates and lower your credit score by being a few days late with your payment. This is a great example of focusing on what will get you rich, not on what's sexy. Think about your friends who catalog every single website to get the best deals on travel or clothes. They might be thrilled after saving \$10—and they can brag to everyone about all the special deals they get—but you'll quietly save thousands by understanding the invisible importance of credit, paying your bills on time, and having a better credit score.

“Paying your bills on time is absolutely critical,” says FICO's Craig Watts. “It's by far the most important thing you can do to improve your credit rating.” If you miss a credit card payment, you might as well just get a shovel and repeatedly beat yourself in the face. The credit card companies are going to get you—and the worst part is, you earned it.

Most people pay their credit card bills online now, but if you haven't set up automatic payment yet, log on to your credit card's website to set it up now. Note: Don't worry if you don't always have enough money in your checking account to pay off the full amount you owe on your credit card. You'll get an e-mail from your card company each month before the payment goes through so that you can adjust your payment as needed.

I just totally forgot the due date for my credit card. So not only did they charge me a late fee, but they charged me interest on that month's and the previous months' purchases. I called up the customer service line of my credit card and told them that I had been a good customer in the past, and asked if they could do anything for me with the fees. The representative removed the late fee and refunded \$20 of the interest charge back to my account. They returned a total of \$59 to me with one phone call.

—ERIC HENRY, 25

2. Get all fees waived on your card.

This is a great, easy way to optimize your credit cards because your credit card company will do all the work for you. Call them using the phone

What to Do If You Miss a Payment

Nobody's perfect. Despite my warnings, I understand that accidents happen and you might miss a payment at some point. When this happens, I use my Indian heritage to beat the companies by negotiating with them, and you can, too:

YOU: Hi, I noticed I missed a payment, and I wanted to confirm that this won't affect my credit score.

CREDIT CARD REP: *Let me check on that. No, the late fee will be applied, but it won't affect your credit score.*

(Note: If you pay within a few days of your missed bill, it usually won't be reported to the credit agencies. Call them to be sure.)

YOU: Thank you! I'm really happy to hear that. Now, about that fee . . . I understand I was late, but I'd like to have it waived.

CREDIT CARD REP: *Why?*

YOU: It was a mistake and it won't happen again, so I'd like to have the fee removed.

(Note: Always end your sentence with strength. Don't say, "Can you remove this?" Say, "I'd like to have this removed.") At this point, you have a better-than-50-percent chance of getting the fee credited to your account. But just in case you get an especially tough rep, here's what to say.

CREDIT CARD REP: *I'm very sorry, but we can't refund that fee. I can try to get you our latest blah blah marketing pitch blah blah. . .*

YOU: I'm sorry, but I've been a customer for four years and I'd hate for this one fee to drive me away from your service. What can you do to remove the late fee?

CREDIT CARD REP: *Hmm . . . Let me check on that. . . Yes, I was able to remove the fee this time. It's been credited to your account.*

You don't believe me that it can be so simple? It is. Anyone can do it.

number on the back of the card and ask if you're paying any fees, including annual fees or service charges. It should go a little something like this:

YOU: Hi, I'd like to confirm that I'm not paying any fees on my credit card.

CREDIT CARD REP: *Well, it looks like you have an annual fee of \$50. That's actually one of our better rates.*

YOU: I'd rather pay no fees. Which card can you switch me to that doesn't charge fees? I'd like to make sure my credit score isn't affected by closing this account, too. Can you confirm?

Yes, I really talk like that.

The vast majority of people don't need to pay any annual fees on their credit cards, and because free credit cards are so competitive now, you rarely need to pay for the privilege of using your card. The only exception is if you spend enough to justify the extra rewards a fee-charging account offers. (If you do pay an annual fee, use the break-even calculator on my website to see if it's worth it.)

Most people should switch from a for-fee card to a free card, so ask your credit card company what they'll do for you. If they waive your fees, great! If not, switch to a no-fee credit card. I suggest you do this at the same credit card company to simplify your life—and so you don't have to close one account and open another, which will affect your credit score. If you decide to close the account and get a new credit card, look for one with no fees and good rewards (read more about those on page 29).

3. Negotiate a lower APR.

Your APR, or annual percentage rate, is the interest rate your credit card company charges you. The average APR is 14 percent, which makes it extremely expensive if you carry a balance on your card. Put another way, since you can make an average of about 8 percent in the stock market, your credit card is getting a great deal by lending you money. If you could get a 14 percent return, you'd be thrilled—you want to avoid the black hole of credit card interest payments so *you* can earn money, not give it to the credit card companies.

So, call your credit card company and ask them to lower your APR. If they ask why, tell them you've been paying the full amount of your bill on time for the last few months, and you know there are a number of credit cards offering better rates than you're currently getting. In my experience,

this works about half the time. It's important to note that your APR doesn't technically matter if you're paying your bills in full every month—you could have a 2 percent APR or 80 percent APR and it would be irrelevant, since you don't pay interest if you pay your total bill in each month. But this is a quick and easy way to pick the low-hanging fruit with one phone call.

4. Keep your cards for a long time and keep them active.

Lenders like to see a long history of credit, which means that the longer you hold an account, the more valuable it is for your credit score. Don't get suckered by introductory offers and low APRs. If you're happy with your card, keep it. And if you're getting a new credit card, don't close the account on your old one. That can negatively affect your credit score. As long as there are no fees, keep it open and use it occasionally, because some credit card companies will cancel your account after a certain period of inactivity. To avoid having your account shut down, set up an automatic payment on any card that is not your primary card. For example, I set it up so that one of my credit cards pays a \$12.95 monthly subscription through my checking account each month, which requires zero intervention on my part. But my credit report reflects that I've had the card for more than five years, which improves my credit score. Play it safe: If you have a credit card, keep it active using an automatic payment at least once every three months.

5. Get more credit. (Warning! Do this only if you have no debt.)

This one is counterintuitive, and to explain it, I had to reach into personal-finance lessons of yore. Many people don't realize this, but in the classic '80s Salt 'N Pepa song "Push It," when they say that the dance isn't for everybody—"Only the sexy people"—they are actually detailing a sound personal-finance strategy:

Bbefore I explain, I want to first acknowledge that yes, I did just quote Salt 'N Pepa in an actual, published book. Anyway, when Salt 'N Pepa talk about "only the sexy people," what they really mean is "this tip is only for the financially responsible people." I'm serious about this warning: This tip is only for people who have no credit card debt and pay their bills in full each month. It's not for anyone else.

It involves getting more credit to improve something called your *credit utilization rate*, which is simply how much you owe divided by your available credit. This makes up 30 percent of your credit score. For example, if you owe \$4,000 and have \$4,000 in total available credit, your ratio is 100 percent ($4,000 \div 4,000 \times 100$), which is bad. If, however, you owe only \$1,000 but

Always Track Your Calls to Financial Companies

Unfortunately for you, credit card companies are very good at using B.S. late fees to increase their revenues. Unfortunately for them, I'm giving you lots of tactics for getting these fees reversed. One of the best ways to improve your chances of getting fees waived is by keeping track of every time you call your financial institutions, including credit card companies, banks, and investment companies. This is especially true of credit card companies, whom you should treat just slightly better than you would an armed militia coming after your younger sister. It's tempting, when calling, to be really nasty, but because I was raised right, I don't scream or threaten violence. Instead, when I call to dispute anything, I open a spreadsheet that details the last time I called them, whom I spoke with, and what was resolved. If only all criminals were as diligent as I am.

The Pocket Tracker for Tracking Credit Card Calls

Call Date	Time	Name of Rep	Rep's ID#	Comments

Download this spreadsheet from www.iwillteachyoutoberich.com.

Whenever you make a call regarding a dispute on your credit card, you wouldn't believe how powerful it is to refer back to the last time you called—citing the rep's name, date of conversation, and your call notes. Most credit card reps you talk to will simply give in because they know you came to play in the big leagues.

When you use this to confront a credit card company or bank with data from your last calls, you'll be more prepared than 99 percent of other people—and chances are, you'll get what you want.

The Cards I Use

I have two credit cards. My primary credit card is a Citibank Premier Pass Elite. Citibank offers no-fee and for-fee versions of this card (the no-fee card offers half the rewards). I ran the calculations and decided to pay the \$75 annual fee because I spend enough to justify the cost. With this card, I earn one point for every dollar I spend and one point for every mile I fly, plus free companion fares for domestic flights over \$379. You can check this card out, along with the free version, at www.citicards.com.

I also have a United Airlines student card that I got many years ago. I use this card only to maintain my credit history, so I've set up an automatic charge of \$12.95/month for a music subscription site (see page 26 for why this is important). You can learn more details about this card at www.united.com.

have \$4,000 in available credit, your credit utilization rate is a much better 25 percent ($\$1,000 \div \$4,000 \times 100$). Lower is preferred because lenders don't want you regularly spending all the money you have available through credit—it's too likely that you'll default and not pay them anything.

To improve your credit utilization rate, you have two choices: Stop carrying so much debt on your credit cards (even if you pay it off each month) or increase your total available credit. Because we've already established that if you're doing this, you're debt-free, all that remains for you to do is to increase your available credit.

Here's how: Call up your card company and ask for a credit increase.

YOU: Hi, I'd like to request a credit increase. I currently have five thousand dollars available and I'd like ten thousand.

CREDIT CARD REP: *Why are you requesting a credit increase?*

YOU: I've been paying my bill in full for the last eighteen months and I have some upcoming purchases. I'd like a credit limit of ten thousand dollars. Can you approve my request?

REP: *Sure. I've put in a request for this increase. It should be activated in about seven days.*

I request a credit-limit increase every six to twelve months. Remember, 30 percent of your credit score is represented by your credit utilization rate. To improve it, the first thing you should do is pay off your debt. If you've already paid off your debt, *only then* should you try to increase your available credit. Sorry to repeat myself, but this is important!

When my husband and I were in college, we got a free T-shirt or something and got credit cards with reasonable limits (\$500). Sure, I had no income, but that didn't seem important at the time. Wouldn't you know it, I was responsible enough to have my limit raised to \$2,000 after a very short period of time! Except that I wasn't actually responsible, and I paid thousands of dollars in interest and late fees and wrecked my credit rating for several years. It took many years for us to clear up this debt. I can't name one purchase that was truly necessary either.

—MICHELE MILLER, 38

6. Use your rewards!

Before I get into rewards programs, let me say this: Just like with car insurance, you can get great deals on your credit when you're a responsible customer. In fact, there are lots of tips for people who have *very good* credit. If you fall in this category, you should call your credit cards and lenders once per year to ask them what advantages you're eligible for. Often, they can waive fees, extend credit, and give you private promotions that others don't have access to. Call them up and use this line:

"Hi there. I just checked my credit and noticed that I have a 750 credit score, which is pretty good. I've been a customer of yours for the last four years, so I'm wondering what special promotions and offers you have for me . . . I'm thinking of fee waivers and special offers that you use for customer retention."

Credit cards also offer rewards programs that give you cash back, airline tickets, and other benefits, but most people don't take advantage of all the free stuff they can get. For example, when I had to fly to a wedding in an obscure town in Wisconsin, I redeemed my credit card's travel reward to save more than \$600 on the flight. That's an easy one, but there's better: Did you know that credit cards automatically give you

Disputing a Charge: How to Mobilize Your Credit Card's Army for You

Once, when I canceled my Sprint cell phone service, they told me my account had a \$160 charge. For what? I asked. Wait for it. . .

“An early cancellation fee.”

Yeah, right. I knew I didn't have a contract, and I had negotiated out of an early cancellation fee a long time before that. (Cell phone companies make a lot of money from trying these shady moves, hoping customers will get frustrated, give up, and just pay.) Unfortunately for them, ever since Sprint had started trying to rip me off three years before, I had kept records of every phone conversation I'd had with them. The customer-service rep was very polite, but insisted she couldn't do anything to erase the charge.

Really? I've heard this tune before, so I pulled out the notes I had taken the previous year and politely read them aloud to her.

As soon as I read them, I experienced a miraculous change in her ability to waive the fee. Within two minutes, my account was cleared and I was off the phone. Amazing!!!! Thank you, madam!!!

Wouldn't it be great if that were the end of the story? Although they told me they wouldn't charge me, they did it anyway. By this point, I was so fed up that I called in the big guns.

Many people don't know that credit cards offer excellent consumer protection. This is one reason I encourage everyone to make major purchases on their credit card (and not use cash or a debit card).

I called my credit card company and told them I wanted to dispute a charge. They said, “Sure; what's your address and what's the amount?” When I told them about my experience with Sprint, they instantly gave me a temporary credit for the amount and told me to mail in a form with my complaint, which I did.

Two weeks later, the complaint was totally resolved in my favor.

What happens in disputes like this is that the credit card company fights the merchant for you. This works with all credit cards. Keep this in mind for future purchases that go wrong.

amazing consumer protection? Here are a few examples you might not know about:

- **Automatic warranty doubling:** Most cards extend the warranty on your purchases. So if you buy an iPod and it breaks after Apple's warranty expires, your credit card will still cover it up to an additional year. This is true for nearly every credit card for nearly every purchase, automatically.
- **Car rental insurance:** If you rent a car, don't let them bully you into getting the extra collision insurance. It's completely worthless! You already have coverage through your car insurance, plus your credit card will usually back you up to \$50,000.
- **Trip-cancellation insurance:** If you book tickets for a vacation and then get sick and can't travel, your airline will charge you hefty fees to re-book your ticket. Just call your credit card and ask for the trip-cancellation insurance to kick in, and they'll cover those change fees—usually up to \$1,000 per year.
- **Concierge services:** When I couldn't find LA Philharmonic tickets last year, I called my credit card and asked the concierge to try to find some. He called me back in two days with tickets. They charged me (a lot, actually), but he was able to get them when nobody else could.

Most important, your credit card makes it easy for you to track your spending. For these reasons I put almost all my purchases on a credit card—especially the large ones. Call your credit card company and ask them to send you a full list of all their rewards. Then use them!

My digital camera broke about eighteen months after I bought it. The manufacturer's warranty expired after twelve months, but I knew that American Express extended warranties on electronics for an extra year. I called American Express and explained the problem. They just asked how much I had paid for the camera, and one week later I had a check for the full purchase price in my mailbox.

—RAVI GOGIA, 26

Mistakes to Avoid

Avoid closing your accounts (usually). Although closing an account doesn't technically harm your credit score, it means you then have less available credit—with the same amount of debt. (For example, having \$2,000 in debt and \$8,000 in available credit is better than having the same debt with only \$4,000 in credit. This is your credit utilization rate from page 28.)

The bottom line is that it's usually a bad idea to close your credit card accounts unless you *know* yourself and you know you're going to spend any credit you have available. (Hey, it happens. At least you're being honest with yourself.)

People with zero debt get a free pass. If you have no debt, close as many accounts as you want. It won't affect your credit utilization score.

Manage debt to avoid damaging your credit score. “If you close an account but pay off enough debt to keep your credit utilization score the same,” says Craig Watts of FICO, “your score won't be affected.” For example, if you carry \$1,000 debt on two credit cards with \$2,500 credit limits each, your credit utilization rate is 20 percent ($\$1,000 \text{ debt} \div \$5,000 \text{ total credit available}$). If you close one of the cards, suddenly your credit utilization rate jumps to 40 percent ($\$1,000 \div \$2,500$). But if you paid off \$500 in debt, your utilization rate would be 20 percent ($\$500 \div \$2,500$) and your score would not change.

Think ahead before closing accounts. If you're applying for a major loan—for a car, home, or education—don't close any accounts within six months of filing the loan application. You want as much credit as possible when you apply.

However, if you know that an open account will entice you to spend, and you want to close your credit card to prevent that, you should do it. You may take a slight hit on your credit score, but over time, it will recover—and that's better than overspending.

Don't play the zero percent transfer game. Some people have started playing the 0 percent transfer game to profit off of credit cards by making balance transfers or taking cash advances. They take the introductory zero percent APR that you get when you open many credit cards (which usually only lasts for six months). Then they borrow money from the card at this

Oh No! My Credit Score Just Dropped

Some of my Type-A readers worry too much about their credit scores. If your credit score suddenly drops, first you should figure out why by getting a copy of your credit report and score (see page 15). Then what's important is how you deal with it going forward. Your credit score can start recovering immediately as more positive information is reported, like paying your bills on time. So work to manage your credit wisely and consistently. As FICO's Craig Watts notes, "The natural movement of these scores is to slowly grow. How do you think people end up with scores in the mid-800s? It's through years and years of consistently boring credit management."

low rate and stick it in a high-interest savings account, which allows them to profit off the interest. Some actually invest the money in short-term CDs or even stocks. At the end, they plan to return the money and keep the interest. I find these 0 percent credit card games so moronic. Sure, you can make a few bucks a year, or maybe even a few hundred, but the waste of time, risk of mismanaging the process, and possibility of screwing up your credit score just aren't worth it. Most important, this is a distraction that gets you only short-term results. You're much better off building a personal-finance infrastructure that focuses on long-term growth, not on getting a few bucks here or there. Dave Ramsey, a popular personal-finance author and radio host, specializes in helping people get out of debt. He says, "I have met with thousands of millionaires in my years as a financial counselor, and I have never met one who said he made it all with Discover Card bonus points. They all lived on less than they made and spent only when they had cash." Focus on the big wins if you want bigger results.

Avoid getting sucked in by "Apply Now and Save 10 Percent in Just Five Minutes!" offers. Stay away from the cards issued by every single retail store. These cards might as well have "You Are a Dumbass" written on them in thirty-six-point type. I can't count the number of times I've seen someone standing in front of me at The Gap or Bloomingdale's who gets suckered into these cards. "If you sign up today, you'll get 10 percent off

Rate Chasers: Wasting Time Earning \$25/Month

One of my blog readers, a guy named Mike, wrote in to tell me about his rate chasing. In this case, it was savings accounts, not credit cards, but they're very similar: It's just moving money around from one account to another to eke out a few additional percentage points.

Mike admitted, "I'm one of those rate-chasers, so [with \$40k in emergency savings], I've consistently been earning anywhere between 0.65 and 0.85 percent higher than my operating money market account. . . . That's an extra \$300/year in interest, which is definitely worth changing banks every four to six months for me."

MY RESPONSE: "Mike, if you were smart enough to sock away \$40k in an emergency fund (which is really impressive, by the way), I bet you're smart enough to spend your time doing something better than earning \$300/year—something that will let you earn much more sustainably. You're only earning \$0.82/day doing that! How about spending the same time optimizing your asset allocation? (see page 170) That step alone is probably worth thousands per year. Or starting a side business? Or even spending those few hours with your family? I don't know what you value, but in my eyes, any of those things would produce more value than \$300/year . . . especially for someone who's so far ahead of everyone else, like you are. This is just my two cents . . . about 1/40th of what you earned today (sorry, couldn't resist)."

Focus on the big wins to get the big results. They may not be as obvious or sexy as jumping from account to account and getting a few extra bucks, but the big wins will make you rich over the long term.

your purchase!" the clerks say. They forget to mention that these cards, with an average APR of 21 percent and low credit limits, are issued to people with little regard for how credit-worthy they are. And, predictably, they contain some of the most onerous terms of any cards, including tremendous rate increases if your payment is late even once. And for what? Twenty dollars off a single purchase? Ask yourself if it's worth it. Here, I'll just tell you: It's not. Stay away from retail cards.

Don't make the mistake of paying for your friends with your credit card and keeping the cash—and then spending it all. Finally, please don't do the same dumb thing I keep doing. The last few times I've gone out to dinner, the bill has come, everyone has plopped down cash, and I've realized I can just pay on my credit card and earn some miles. Here's where things go horribly wrong. Don't wake up the next day and say, "Wow! I have \$100 extra cash in my wallet!" NO!!! Put it in the bank!! I forget to do this all the time and end up regretting it. Last time, I checked my statement and had shared-meal charges of \$50, \$64, \$25, and so on. Then, my mouth agape, I opened my wallet and saw . . . one \$1 bill. Great.

Debt, Debt, Debt

Statistically speaking, being in debt is normal. And yet, think about it: Is it really normal to owe more than you have? Maybe for certain things, like a house or education, but what about for random purchases on a credit card?

Some people differentiate debts by calling them "good debt" and "bad debt," depending on if the debt appreciates (education) or depreciates (car) over time. Others despise debt altogether. Whatever the case, most of us have a lot of it. And it doesn't feel good.

I want to talk about student loans and credit card debt, the two largest types of debt facing most twentysomethings and thirtysomethings. They get in the way of your getting rich, so I want to help you knock these barriers down with a simple plan.

THE BURDEN OF STUDENT LOANS

I'm not going to lie to you: Getting rid of student loan debt is hard. The average student graduates with about \$20,000 in student loan debt, but lots of my friends have more than \$100,000 in loans to pay off. Unfortunately, it's not like you can just wave a magic wand and make it disappear. In fact, even if you declare bankruptcy, you'll still have to pay your student loans. However, even if you have huge student debt, I want you to pay attention to how much money you're putting toward the monthly payments. Because the loan amounts are so large, even an extra \$100/month can save you years of payments.

Let's look at an example. "Tony," a friend of mine who graduated from Stanford, has \$20,000 in student loan debt. If he pays off the loan over ten years, his monthly payment will be about \$230/month, meaning he'll pay just over \$7,600 in interest. But if he pays just \$100 more/month, he'll have to pay only \$4,571 in interest—and he'll pay off his loan in 6.3 years.

Most of us accept our student debt as is. We get a bill each month, we pay it, and we shrug, frustrated about the burden of our loans but not really sure if we can do anything. Guess what: *You can change your student loan payments.*

First, to inspire you to take action on paying off your student debt, play with the financial calculators at www.dinkytown.net. You'll be able to see how paying different amounts changes the total amount you'll owe.

Second, I want to encourage you to put at least \$50 more each month toward any debt you have. Not only is it a psychological victory to know that you're consciously working to pay off your debt, but you'll also be able to focus on investing sooner. Make sure this is automatic, drawing right out of your checking account, so you don't even see the money. (I describe automatic payments in Chapter 5.)

Finally, if you find that, no matter how you run the numbers, you're not going to be able to pay your loan off in any reasonable amount of time, it's time to call your lender. Look at the phone number on that monthly bill you keep ignoring. Call them up and ask them for their advice. I can't emphasize this enough: *Call them.* Your lenders have heard it all, from "I can't pay this month" to "I have five different loans and want to consolidate them." You'll want to ask them the following:

- *What would happen if I paid \$100 more per month? (Substitute in the right amount for you.)*
- *What would happen if I changed the time line of the loan from five years to fifteen years?*
- *If you're looking for a job, you might ask, What if I'm looking for a job and can't afford to pay for the next three months?*

Your lender has answers to all these questions—and chances are they can help you find a better way to structure your payment. Typically, they'll help you by changing the monthly payment or the time line. Just think: With that one call you could save thousands of dollars.

WHEN CREDIT CARDS GO BAD

Just like with gaining weight, most people don't get into serious credit card debt overnight. Instead, things go wrong little by little until they realize they've got a serious problem. If you've ended up in credit card debt, it can seem overwhelming. When you watch Dr. Phil, you wonder why those people can't figure out how to solve their problems when the answers are so clear: "Yes, you should leave him! He hasn't had a job for the last eight years! And he looks like a rat. Are you blind?" But when we have our own problems, the answers don't seem so simple. What should you do? How do you manage your day-to-day finances? And why do things keep getting worse? The good news is that credit card debt is almost always manageable if you have a plan and take disciplined steps to reduce it. Yes, it's hard, but you *can* get out of debt.

Now, almost nothing makes people feel guiltier than having credit card debt. Seventy-five percent of Americans claim they don't make major purchases on their credit card unless they can pay it off immediately. Yet from looking at actual spending behaviors, 70 percent of Americans carry a balance and fewer than half are willing to reveal their credit card debt to a friend. Those numbers are an indication that American consumers are ashamed of their debt levels, says Greg McBride, a senior financial analyst from www.bankrate.com, which commissioned the study. Referring to a recent study on consumer behavior, he told me, "They [are] more willing to give their name, age, and even details of their sex life than provid[e] the amount of their credit card debt." Really? Their sex lives? I would like to talk to these people . . . alone.

When I was engaged, I asked my credit union to raise my Visa limit of \$500 to \$1,500. This was a horrible mistake. My wedding dress budget of \$500 suddenly became \$1,200 when I "fell in love" with a dress in a boutique. I've paid only the minimum balance on my Visa each month, since emergency expenses seem to be keeping our budget stretched paper-thin, so I'm throwing away \$30 or more per month in interest for a credit card balance from just one day in my life. My husband and I will most likely be paying for the wedding for years to come.

—CLAIRE STUBBLEFIELD, 24

This shame means that those in debt often don't educate themselves on how to stop the madness. Instead, they fall victim to the credit card companies' nefarious practices, which prey on the uninformed—and the undisciplined. These companies have become very good at extracting more money from us, and we've become very bad at knowing enough to say no.

For instance, the number one mistake people make with their credit cards is carrying a balance, or not paying it off every month. Astonishingly, of the 115 million Americans who carry a monthly credit card balance, half of them pay only their minimum monthly payments. Sure, it's tempting to think that you can buy something and pay it off little by little, but because of credit cards' insanely high interest rates, that's a critical mistake.

Let's say it again: The key to using credit cards effectively is to pay off your credit card in full every month. I know I said that prosaically, in the same way someone would ask you to pass the salt, but it is REALLY IMPORTANT. Ask your friend with \$12,000 in credit card debt how it happened. Chances are he'll shrug and tell you he decided to "just pay the minimum" every month.

I'm not going to belabor the point, but you would be *shocked* by how many people I talk to who charge purchases without knowing how much they'll actually end up paying once interest is figured in. Paying the minimum amount on your credit card is the grown-up equivalent of a little boy letting the school bully take his lunch money on the first day of school, then coming back with his pockets jingling every single day afterward. Not only are you going to get your ass kicked, but it's going to happen again and again. But by learning how the system works, you can figure out how to avoid the card companies' traps and get out of debt more quickly.

PAY YOUR DEBT OFF AGGRESSIVELY

If you've found yourself in credit card debt—whether it's a lot or a little—you have a triple whammy working against you:

- First, you're paying tons of high interest on the balance you're carrying.
- Second, your credit score suffers—30 percent of your credit score is based on how much debt you have—putting you into a downward spiral of trying to get credit to get a house, car, or apartment, and having to pay even more because of your poor credit.

- Third, and potentially most damaging, debt can affect you emotionally. It can overwhelm you, leading you to avoid opening your bills, causing more late payments and more debt, in a downward spiral of doom.

It's time to make sacrifices to pay off your debt quickly. Otherwise, you're costing yourself more and more every day. Don't put it off, because there's not going to be a magic day when you win a million dollars or "have enough time" to figure out your finances. You said that three years ago! Managing your money has to be a priority if you ever want to be in a better situation than you are today.

Think about it: The average interest rate on credit cards is a hefty 14 percent, which means you're likely paying a tremendous amount of interest on any balance you're carrying. To see how this plays out, let's assume someone has \$5,000 in debt on a card with 14 percent APR. If Dumb Dan pays the monthly minimum payment, it will take him more than eight years to pay off this debt—assuming he doesn't rack up more debt, which you know he will. Over the entire process, he'll pay more than \$1,900 *in interest alone*. Smart Sally, by contrast, decides to pay \$400 each month, which is double the minimum payment. It takes her just over five years to pay off the full debt, and she cuts the amount of interest by more than *half*. Plus, since it's automatically withdrawn from her checking

DUMB DAN VS. SMART SALLY: PAYING OFF \$5,000 CREDIT CARD DEBT AT 14% APR

Dumb Dan pays the minimum monthly payment		
His monthly payment is . . .	Paying minimum payments, it will take this long to pay off . . .	Total amount of interest he pays is . . .
\$200	2 years, 8 months	\$1,313.96
Smart Sally pays twice the minimum monthly payment		
Her monthly payment is . . .	Paying twice the minimum payments, it will take this long to pay off . . .	Total amount of interest she pays is . . .
\$400	14 months	\$436.46

account each month, she doesn't even notice the extra money she's paying.

That's just from paying \$200 extra each month. Don't have \$200 extra? How about \$50? Or even \$20? Any increase over the minimum helps.

If you set up automatic payments (which I discuss on page 131) and work your debt down, you won't pay fees anymore. You won't pay finance charges. You'll be free to grow your money by looking ahead. In the credit card companies' eyes you'll be a "deadbeat," a curious nickname they actually use for customers who pay on time every month and therefore produce virtually no revenue. You'll be worthless in their eyes, which is perfect in mine. But to beat them, you have to prioritize paying off whatever you already owe.

The day I paid off my last credit card bill was surreal. I had spent four years in college racking up debt that I was certain I'd pay off so easily once I started working. I Spring Break-ed in Las Vegas, Mexico, and Miami. I bought Manolo Blahnik shoes. I went out several nights a week. I had no idea then that I'd spend five post-college years paying that debt off—five years in which I could not vacation, could not buy fancy shoes, and could not go out very much at all. So on the day when I sent my final payment to my credit card company, I decided that that payment would be my last. I promised myself that I would never go back into debt again.

—JULIE NGUYEN, 25

Five Steps to Ridding Yourself of Credit Card Debt

Now that you see the benefits of climbing out of debt as quickly as possible, let's look at some concrete steps you can take to get started. *I Will Teach You to Be Rich* is a six-week program, but obviously paying off your loans will take longer than that. Even if you're carrying debt, you should still read the rest of the book now, because there are important lessons on automating your finances and getting

conscious about your spending. Just keep in mind that you won't be able to invest as aggressively as I recommend until you pay off your debt. Yeah, it sucks, but that's a reasonable cost to pay for incurring your debt. Now, here's what to do.

1. Figure out how much debt you have.

You wouldn't believe how many people don't do this and continue blindly paying off any bills that come in with no strategic plan. This is exactly what the credit card companies want, because you're essentially just dumping money into their mouths. You can't make a plan to pay off your debt until you know exactly how much you owe. It might be painful to learn the truth, but you have to bite the bullet. Then you'll see that it's not hard to end this bad habit. In fact, you can get the credit card companies to help you: Look at the back of your credit cards for their numbers, call them, and let them tell you the answers to fill in this spreadsheet.

HOW MUCH DO YOU OWE?

Name of credit card	Total amount of debt	APR	Monthly minimum payment

Download this spreadsheet from www.iwillteachyoutoberich.com.

Congratulations! The first step is the hardest. Now you have a definitive list of exactly how much you owe.

2. Decide what to pay off first.

Not all debts are created equal. Different cards charge you different interest rates, which can affect what you decide to pay off first. There are two schools of thought on how to go about this. In the standard method, you pay the minimums on all cards, but pay more money to the card with the *highest APR*, because it's costing you the most. In the Dave Ramsey Snowball method, you pay the minimums on all cards, but pay more

PRIORITIZING YOUR DEBT

	Snowball method: lowest balance first	Standard method: highest APR first
How it works	Pay the minimum on all cards, but pay more on the card with the lowest balance. Once you pay off the first card, repeat with the next-lowest balance.	Pay the minimum on all cards, but pay more on the card with the highest interest. Once you pay off the first card, repeat with the next-highest-APR card.
Why it works	This is all about psychology and small wins. Once you pay off the first card, you're more motivated to pay off the next one.	Mathematically, you want to pay off the credit card that's costing you the most first.

money to the card with the *lowest balance* first—the one that will allow you to pay it off first.

This is a source of fierce debate in credit card circles. Technically, the Snowball method isn't necessarily the most efficient approach, because the card with the lowest balance doesn't necessarily have the highest APR. But on a psychological level, it's enormously rewarding to see one credit card paid off, which in turn can motivate you to pay off others more quickly. Bottom line: Don't spend more than five minutes deciding. Just pick one method and do it. The goal is not to optimize your payoff method, but to get started paying off your debt.

3. Negotiate down the APR.

I'm a huge fan of taking 50/50 odds if the upside is big and it takes only five minutes of my time. Accordingly, try negotiating down your APR. It works surprisingly often and if it doesn't, so what? Just call your card companies and follow this script:

YOU: Hi, I'm going to be paying off my credit card debt more aggressively beginning next week and I'd like a lower APR.

CREDIT CARD REP: *Uh, why?*

YOU: I've decided to be more aggressive about paying off my debt, and that's why I'd like a lower APR. Other cards are offering me rates at half what you're offering. Can you lower my rate by 50 percent or only 40 percent?

CREDIT CARD REP: *Hmm . . . After reviewing your account, I'm afraid we can't offer you a lower APR. We can offer you a credit limit increase, however.*

YOU: No, that won't work for me. Like I mentioned, other credit cards are offering me zero percent introductory rates for twelve months, as well as APRs of half what you're offering. I've been a customer for X years, and I'd prefer not to switch my balance over to a low-interest card. Can you match the other credit card rates, or can you go lower?

CREDIT CARD REP: *I see . . . Hmm, let me pull something up here. Fortunately, the system is suddenly letting me offer you a reduced APR. That is effective immediately.*

It doesn't work every time, but when it does, you can save a significant amount of money with a five-minute conversation. Make the call, and if you're successful, don't forget to recalculate the figures in your debt spreadsheet.

I fell behind in my payments to my Sears Gold MasterCard. I racked up \$3,400 in debt, so I called and told them I was having difficulties paying my bill. They offered me 0 percent financing on my balance for twelve months to help me get back on track.

—CHRIS MANCINI, 25

4. Decide where the money to pay off your credit cards will come from.

One common barrier to paying off debt is wondering where the money should come from. Balance transfers? Should you use your 401(k) money or your savings account? How much should you be paying off every month? These questions can be daunting, but don't let them stop you.

- **BALANCE TRANSFERS.** Many people begin by considering a balance transfer to a card with a lower APR. I'm not a fan of these. Yes, it can help for a few months and save you some money, particularly on large balances. But this is just a Band-Aid for a larger problem (usually your spending behavior, when it comes to credit card debt), so changing the interest rate isn't going to address that. Plus, balance transfers are a confusing process fraught with tricks by credit card companies to trap you into paying more, and the people

I asked some of the bloggers I trust and admire to add their two cents to the book. Look for their contributions scattered throughout.

— Ramit

ADVICE
FROM THE
BLOGOSPHERE



SO, YOU'VE DECIDED TO GET OUT OF CREDIT CARD DEBT

Here's How to Do It Right

By Flexo of www.consumerismcommentary.com

It's fine to use credit cards as tools for convenient spending and to rack up “bonus points,” as long as you're aware of the possibility you are subtly spending more due to the ease of use. I would even understand it if you use a credit card in an emergency situation when no other options are available. But when you use that same card to buy products or experiences you cannot afford, it's time admit your behavior is damaging and get a grip on your situation.

You're reading this book because you want to improve your money situation—perhaps even get rich—and the only way to tread that path is to get out of credit card debt. Here's how.

FIRST, YOU NEED THE CASH FLOW. To eradicate debt, you need to have enough income every month to meet your regular obligations like groceries, utilities, your mortgage, and the minimum payments on your credit cards, plus enough to throw toward putting that debt away for good. If you do not have enough income to cover more than your minimum payments, you have to clear that hurdle by earning more money, negotiating with your credit card issuers to lower your minimum payments, or working with a legitimate, nonprofit debt consolidation organization that negotiates with creditors on your behalf, not one that provides you with a loan. (Try the National Foundation for Credit Counseling at www.nfcc.org and read about nonprofit debt consolidation on HowStuffWorks at <http://money.howstuffworks.com/personal-finance/debt-management/non-profit-debt-consolidation.htm>.)

NEXT, PRIORITIZE YOUR CREDIT CARDS. The best way to do this is to list your debts from highest interest rate to lowest. If you do a little research, you

may find some people—vocal professionals with motivational seminars and radio talk shows—who disagree with this premise. They want you to list your credit cards with the lowest balances as the most important, the ones to fully pay off first. They claim that the emotional “quick win” of paying off the first card as quickly as possible will motivate you to continue paying off debt. (This sounds more like a “quick win” for the credit card industry because they will get more of your money from interest.) You’re already motivated—and it could well be your emotions that got you into this mess of debt in the first place. Leave your emotions at the door and get out of debt the quickest, cheapest, and most efficient way possible.

PAY THE MINIMUM ON EVERYTHING EXCEPT THE TOP CARD.

Once your credit cards are ranked properly, pay the minimum amount due listed on the statement for every card except the one at the top of the list. Dedicate all the extra funds you have to paying it off. Do this every month until that first credit card balance disappears. Then move to the second card on the list.

STOP USING YOUR CARDS. When you’re paying off debt, you don’t want to be adding more at the same time. Eliminating debt is more than just paying off your balances, it’s also about resisting consumerist temptations. Don’t cancel your cards, but stop using them. Some people have found resisting the temptation to spend to be easier when the credit cards are out of sight. One creative method is to literally “freeze your credit”: Freeze your plastic into a block of ice as described at www.calculatorweb.com/calculators/creditcardcalc.shtml.

Repeat this monthly payment process until the credit card debt is gone. This method will get you there quickly as long as you stick to it diligently. Don’t believe me? Check out the “snowball calculator” at www.whatsthecost.com/snowball.aspx?country=us.

Additional resources that might help you eliminate credit card debt:

- How much will that \$350 jacket really cost on a credit card? Find out by entering the price paid for a product as the “current account balance.” www.calculatorweb.com/calculators/creditcardcalc.shtml.
- Use the “social” financial management application Mint to analyze your credit cards and provide you with suggestions for lowering your interest rates. www.mint.com.
- Eliminating your credit card debt should have a positive effect on your credit score. Get your current score for free from CreditKarma and simulate scenarios to see how your future score might change with improved money habits. www.creditkarma.com.

Flexo blogs about personal finance, the economy, and current financial events at www.consumerismcommentary.com.

I've known who do this end up spending more time researching the best balance transfers than actually paying their debt off. As we just discussed, a better option is to call and negotiate the APR down on your current accounts.

- **TAKING MONEY FROM A 401(K) OR HOME EQUITY LINE OF CREDIT (HELOC).** I don't recommend either of these options. You're trying to reduce complexity, not increase it, even if it costs slightly more. Using your 401(k) money double-taxes the money you contributed to your retirement account. Again, there's the behavioral problem: People with credit card debt often find it difficult to reduce spending and end up getting back into debt after tapping their 401(k) or HELOC. Tough to hear, but true. If you use your HELOC money to pay off credit cards, you'll risk losing your home if you run up more debt.
- **REDUCING SPENDING AND PRIORITIZING DEBT.** Not sexy, but it works. The most sustainable way to pay off credit card debt is also the least sexy. Unlike balance transfers or HELOC borrowing, which you can brag to your friends about, it's not very exciting to tell people you decided to spend less on other things so you could pay off your debt. But it works.

Let me ask you a question. Right now, for every \$100 you earn, how much of it goes to debt? Two dollars? Maybe \$5? What if you paid \$10 toward your debt? You'd be surprised that many people don't even have to cut much spending to pay off debt quickly. They just have to stop spending on random items, get conscious about making debt a priority, and set up aggressive automatic transfers to pay off their credit card debt. I don't want to make this sound easy, because paying off your credit card debt is extremely difficult. But millions of others have done it.

As you read the rest of this book, think of yourself as being on a little treasure hunt to figure out where to get the money to pay off your credit card debt. Pay special attention to these discussions:

- "The Next \$100" Principle on page 128.
- Figuring out how much you can afford to put toward your debt using the Conscious Spending Plan on page 103.

- The “Save \$1,000 in 30 Days” Challenge on page 115.
- Setting up automatic payments on page 23.

You'll notice that I haven't offered you a simple secret or cute sound bite about how to pay off your debt with no work. That's because there isn't one. If there were, I would be the first to tell you. But truthfully, paying off debt just takes hard work and a plan. It may seem like pure agony for the first few weeks, but imagine the relief you'll feel when you see your debt growing smaller and smaller with each passing month. And sometime after that, you'll be debt-free! Then you can focus all your energy on getting ahead, investing, and living your life. It may not happen overnight, but if you pay off your credit card debt as aggressively as possible, you'll soon be on the road to getting rich and staying rich.

5. Get started.

Within the coming week, you should start paying more money toward your debt. If you find yourself taking more time than that to get started, you're overthinking it. Remember the philosophy behind the 85 Percent Solution: The goal is not to research every last corner to decide where the money will come from, it's action. Figure out how much debt you have, decide how you want to pay it down, negotiate your rates, and get started. You can always fine-tune your plan and amount later.

My biggest mistake was not thinking about the future, and using credit cards to live beyond my means. I got myself into debt in my mid-twenties by spending, spending, spending—and on stupid things like clothes, eating out, DVDs, etc. Once I allowed myself to carry a balance that first time, it got easier to let it build up. I learned my lesson, and am now living within my means on a strict budget that will allow me to be debt-free in two years. Being in debt means giving up choices, means staying at a job you hate because it pays good money, means not being able to build a decent savings account. On a happier note, all of my debt is now on cards with APRs between 0 and 4.99 percent. I have a small but growing savings account, a 401(k), and a plan to achieve financial freedom.

—MELISSA BROWN, 28

ACTION STEPS

**WEEK
ONE**



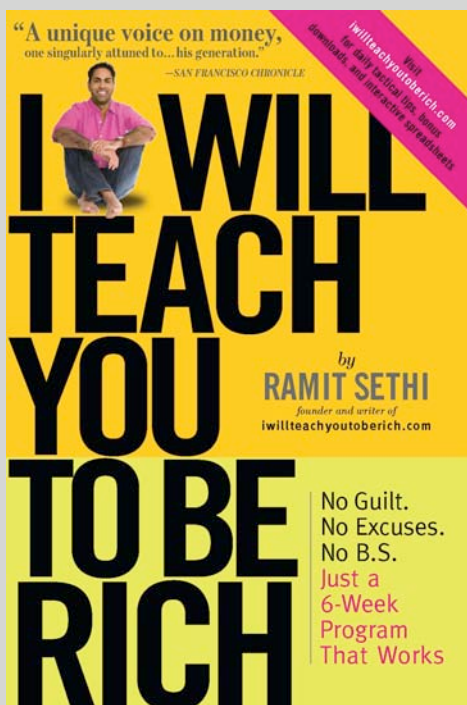
1 Get your credit report and credit score (one hour). Check them to make sure there are no errors and to get familiar with your credit. You can access your report and score at www.myfico.com. If you don't want to pay the \$15 fee at www.myfico.com, at least get your free credit report from www.annualcreditreport.com.

2 Set up your credit card (two hours). If you already have one, call and make sure it's a no-fee card. If you want to get a new credit card, check out www.bankrate.com.

3 Make sure you're handling your credit cards effectively (three hours). Set up an automatic payment so your credit card bill is paid off in full every month. (Even if you're in debt, set up an automatic payment for the largest amount you can afford.) Get your fees waived. Apply for more credit if you're debt-free. Make sure you're getting the most out of your cards.

4 If you have debt, start paying it off (one week to plan, then start paying more). Not tomorrow, not next week, today: Give yourself one week to figure out how much you owe, call the lender to negotiate down the APR or restructure your payments (in the case of student loans), and set up your automatic payment with more money than you're paying now. Getting out of debt quickly will be the best financial decision you ever make.

That's it! You've mastered improving your credit by using your credit card. You've waived your card fees, negotiated your rates down, and even set up automatic payments. And if you have debt, you've taken the first steps toward paying it all off. Congratulations! In the next chapter, we're going to optimize your bank accounts. You'll earn more interest, pay no fees, and upgrade to better accounts than the worthless checking and savings accounts we grew up with. Once you've tackled your credit card and bank accounts, you'll be ready to start investing—and growing your money significantly.



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About the book

At last, for a generation that's materially ambitious yet financially clueless comes *I Will Teach You To Be Rich*, Ramit Sethi's 6-week personal finance program for 20-to-35-year-olds. A completely practical approach based around the four pillars of personal finance—banking, saving, budgeting, and investing—and the wealth-building ideas of personal entrepreneurship.