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HOW TO ASSESS YOUR CURRENT FINANCIAL SITUATION

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ASSESSING

Your Financial Situation

In preparation for your journey to better financial health, assess your financial situation as it stands right now. Assessing may be difficult if you're in a tight spot or bad situation, for it's never easy to look at something that's not that great. This step is essential, though. In order to successfully move forward, you must first know where you stand.

As you assess your situation, take solace knowing that you're not the only one in this spot. Remember, the average U.S. adult has $28,500 in consumer debt and nearly half of those people expect to pay on their debt for at least 6 years (if not much longer). Many other people are in situations similar to, or worse than yours -- and a lot have been there but found a way out.

No matter what your situation looks like, there is hope for a brighter tomorrow, next month and next year. There is a path forward. You just have to assess the situation and determine which path is the best one.

List Your Income, Regular Expenses, Irregular Expenses and Debts

The first step in assessing your situation is to simply list all of your income and debts. The list should include all of the following:

- **Primary income source(s)**
- **Any additional income source(s)**
- **Regular expenses**
- **Irregular expenses**
- **Outstanding debts**

Don't worry about prioritizing your expenses and debts at this point. In the first listing step, the goal is simply to gather the data that you'll need to plot out your journey's steps.

Monthly Budget Worksheet — List Expenses and Income Below:

Use the worksheet below to create a montly budget or use an online **Google Sheet Template** to create your own.

Use the Google Sheet Template

PROJECTED MONTHLY INCOME	Income 1	
	Extra income	
	Total monthly income	

ACTUAL MONTHLY INCOME	Income 1	
	Extra income	
	Total monthly income	

HOUSING	Projected Cost	Actual Cost	Difference
Mortgage or rent			
Phone			
Electricity			
Gas			
Water and sewer			
Cable			
Waste removal			
Maintenance or repairs			
Supplies			
Other			
Subtotals			

TRANSPORTATION	Projected Cost	Actual Cost	Difference
Vehicle Payment			
Bus/taxi fare			
Insurance			
Licensing			
Fuel			
Maintenance			
Other			
Subtotals			

INSURANCE	Projected Cost	Actual Cost	Difference
Home			
Health			
Life			
Other			
Subtotals			

FOOD	Projected Cost	Actual Cost	Difference
Groceries			
Eating out			
Other			
Subtotals			

PETS	Projected Cost	Actual Cost	Difference
Food			
Medical			
Grooming			
Toys			
Other			
Subtotals			

PERSONAL CARE	Projected Cost	Actual Cost	Difference
Medical			
Hair/nails			
Clothing			
Dry cleaning			
Health club			
Organization dues or fees			
Other			
Subtotals			

PROJECTED BALANCE (Projected income minus expenses)	
ACTUAL BALANCE (Actual income minus expenses)	
DIFFERENCE (Actual minus projected)	

ENTERTAINMENT	Projected Cost	Actual Cost	Difference
Video/DVD			
CDs			
Movies			
Concerts			
Sporting events			
Live theater			
Other			
Other			
Other			
Subtotals			

LOANS	Projected Cost	Actual Cost	Difference
Personal			
Student			
Credit card			
Credit card			
Credit card			
Other			
Subtotals			

TAXES	Projected Cost	Actual Cost	Difference
Federal			
State			
Local			
Other			
Subtotals			

SAVINGS or INVESTMENTS	Projected Cost	Actual Cost	Difference
Retirement account			
Investment account			
Other			
Subtotals			

GIFTS and DONATIONS	Projected Cost	Actual Cost	Difference
Charity 1			
Charity 2			
Charity 3			
Subtotals			

LEGAL	Projected Cost	Actual Cost	Difference
Attorney			
Alimony			
Payments on lien or judgment			
Other			
Subtotals			

TOTAL PROJECTED COST	
TOTAL ACTUALCOST	
TOTAL DIFFERENCE	

$28K

the average U.S. adult has $28,500 in consumer debt

Assess Your Situation.

Identify Your Personal Debt Challenges

You'll undoubtedly notice patterns as you list your incomes, expenses and debts, and some of these patterns will likely create issues. Review your list, and use the questions on the right to identify the specific challenges that you might face.

Your answers to the questions will help you select the right debt relief option for your situation and needs.

- Do your expenses show common overspending in categories that you indulge in?
- Do overspending patterns show when you're prone to spend money unnecessarily?
- Do you regularly overspend when stressed or around certain occasions (e.g. holidays)?
- Did you take out a personal loan to cope with a particular financial difficulty?
- Does your total income sufficiently cover your expenses and minimum debt payments?

How is interest affecting your debt?

Appreciate the Full Cost of Debt

Prior to tackling your outstanding debts, it may be helpful to remind yourself of how much debt costs. People sometimes don't realize how large the total amount paid on a debt, often partially because schools are largely bereft of financial literacy programs. If you've never done the math to see how interest (not to mention other potential fees) accumulates, the total amount paid on a debt over time is astounding.

To see how interest plays out, consider the two examples, on the following page, of a personal loan and a credit card balance. First, assume a $6,000 personal loan that lasts six years and has a 12 percent annual percentage rate (APR). Second, assume a $12,000 credit card balance with a 22 percent APR where only the minimum monthly payment is made. The chart shows how each of these debts would proceed.

$6,000 Personal Loan with 12% APR

	APR	Annual Payments	Interest Charged	Principle Paid	Balance Remaining
Beginning Balance					$6,000
1st Year	12%	$1,408	$681	$727	$5,274
2nd Year	12%	$1,408	$589	$818	$4,454
3rd Year	12%	$1,408	$485	$923	$3,532
4th Year	12%	$1,408	$368	$1,040	$2,492
5th Year	12%	$1,408	$236	$1,172	$1,320
6th Year	12%	$1,408	$87	$1,320	$0
Total		**$8,446**	**$2,445**	**$6,000**	**$0**

*Exact numbers vary slightly due to rounding

$12,000 Credit Card with 22% APR

	APR	Annual Payments	Interest Charged	Principle Paid	Balance Remaining
Beginning Balance					$12,000
1st Year	22%	$2,854	$2,616	$238	$11,762
2nd Year	22%	$2,797	$2,564	$233	$11,529
3rd Year	22%	$2,744	$2,516	$228	$11,301
4th Year	22%	$2,687	$2,463	$224	$11,077
5th Year	22%	$2,604	$2,384	$220	$10,857
6th Year	22%	$2,582	$2,367	$215	$10,642
Total		**$16,268**	**$14,910**	**$1,358**	**$10,642**

*Exact numbers vary slightly due to rounding

Reducing Your Debt Load

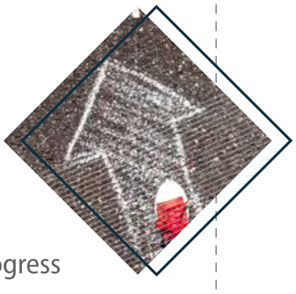
In the previous scenarios, the personal loan results in paying back over 33 percent of the original amount in interest. The credit card is even worse, paying more than the balance on the card over the course of six years but only reducing the outstanding balance by a little over $1,000.

Your precise situation will undoubtedly be different, but the mathematical principles work the same way. Debt comes with a high cost due to the interest that's charged on it, and this is irrespective of any late fees or surcharges you might be assessed.

Reducing your debt load is a key step in pursuing better financial health.

Prioritize Your Expenses and Debts

In order to take control of your financial situation and make progress with your debts, it's necessary to prioritize what you make payments on. Regardless of whether you can't cover your monthly expenses or have a surplus of income, knowing which expenses and debt payments to pay first is essential if you want to make substantial and sustained progress on your journey.



Go back to your list of expenses and debts, and now prioritize each item listed. Some overspending might be able to be eliminated altogether, but plenty of items will remain on your prioritized list.

Having these in the proper order will help you:

- Determine what to pay if you're unable to meet all your financial obligations
- Make progress reducing your debts as efficiently as possible
- Avoid making decisions based on stressors (a tactic creditors frequently use)

In short, you'll be able to consistently make reasoned decisions on what to pay. You'll know which are your next most important expenses or debt payments, so you can always pay the right one next.

You'll find some general principles and a dozen rules on exactly how to prioritize your financial obligations below.

General Prioritization of Expenses and Debt Payments

Expenses and debts should be prioritized in the order that they most affect you if they aren't made. In other words, the expenses and payments that would be the worst to miss should be paid first. Being sued over nonpayment of an unsecured debt isn't fun, but it's not nearly as bad as being unable to purchase groceries or losing your home.

Given this principle, expenses and debts should be paid off in the following order: essential expenses, secured debts, unsecured debts, extra payments and discretionary expenses. Don't begin payments on the next category until you've taken care of the obligations in the former one.

More Resources from Century

To learn more about debt settlement, take a look at some of our blog articles.

Debt Consolidation VS. Debt Settlement

If you're struggling with debt, you're not alone. As of February 2020, American household debt had skyrocketed to more than $14 trillion and set a new record in the process, according to the Federal Reserve ...

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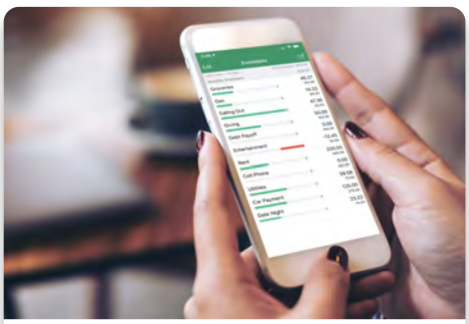

Finding the Best Budgeting App for You

Now, more than ever, it's important to manage the money you do have with prudence and forethought. It's never smart to let money trickle down the drain, but the current situation makes it even more...

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Which Debts Should I Pay Off First?

The overarching goal of debt reduction is always to reduce how much outstanding debt you have, but there isn't only one way to accomplish this. People successfully use a variety of different strategies ...

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