Ask the Budget Guy

submitted by Allen Gunter

How'd the thumb get so smart?

Ever stop and think about just how smart your thumbs are? I suppose not. After all, you would look pretty silly carrying on a conversation with your thumb! Can't you just see it? You're in a grocery store and …

> *Hey, thumb. What's the better deal? 10 ounces of MooCow cheese for $1.98 or 12 ounces of Utter Delight cheese for $2.19? What's that? No, you can't ask Mr. Toe for help!*

And yet, for years we've had "rules of thumb" to help guide our financial lives. Simple principles that are easy to learn, easy to use, and very effective. It's true, of course, that rules of thumb are approximate, not absolute. And I guess that's where the problems started.

We've got computers, now, and the Internet; fancy programs to help us manage our money and on-line bill payment. Pretty sophisticated stuff. Rules of thumb? They're outdated — great for grandma and grandpa, but the world has changed.

Or has it? Isn't the current mess telling us that it's not nice to fool Mother Nature? Maybe if we'd all stuck to the old financial rules of thumb things would be a lot better right now. Maybe if you start trying to use them from here on out, your financial life will improve.

Let's start with a rule about debt. Add up what you pay each month on all your debts — mortgage or rent, cars, credit cards, student loans, store loans for things like furniture and appliances, old medical bills, etc.

- Your total debt payments shouldn't be more than 35% of your gross monthly income.

So how'd you come out? Under 35%? Good for you! Over 35%? Chances are that you've got a pretty big mortgage payment, so let's look at that next:

- Don't spend more than 28% of your gross monthly income on housing.

If you're renting, that includes your utilities as well as your rent. If you own a home, it includes principal, interest, property taxes, insurance and maintenance.

How'd you come out on this one? These first two rules used to be used by lenders to help determine whether or not they would give you a mortgage. If lenders had just stuck with these rules, there wouldn't have been a housing bubble and the economy wouldn't be in the mess it is in today.

By the way, don't gloss over the cost of maintenance in determining how much you spend each month on housing. Those costs are tricky because they're not regular. So it's easy to forget about them in months when you don't have any. Fixing the air conditioner, replacing the water heater, painting, sprucing up the yard, even buying a new lawn mower — those are all part of maintenance and so part of your housing cost.

While we're talking about houses, keep these two rules in mind when it comes time to buy your next, or maybe your first, house:

- Don't take out a mortgage for more than 2½ times your gross annual income.
- Put at least 20% down.

Once upon a time, these rules were also used by lenders. Then the 20% went to 10% and then 5%, while the 2½ times simply disappeared altogether.

Yes, I know, a lot of people wouldn't have been able to buy houses if all of these rules of thumb were used. But let's think about that for a moment…hasn't it turned out that a lot of people really couldn't afford to buy the houses they did buy under the new "anything goes" rules?

Keep in mind that these rules of thumb are limits, not targets or goals. They don't mean that carrying a debt load of 35%, for example, is smart and will make you healthy, wealthy and wise. Think of them like the fence around the

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playground. It keeps you from running out into the street, but the fun stuff is in the middle of the park, well inside the fence. The lower your debt, the less expensive your house, the more you put down, the better off you will be financially.

But enough of that negative debt stuff. How about some rules for building financial security? And that starts with saving:

- Keep three to six months worth of living expenses for emergencies.

The original idea behind this rule was to create a safety net if you lost your job. The range of three to six months was intended to account for differing circumstances such as family size and number of wage-earners.

But having a reserve like this can serve another purpose, too. It gives you a way to cover larger, infrequent expenses without increasing your debt. That air conditioner, for example, or car repairs. The key is to build the reserve back up as fast as you can each time you tap into it.

And when times are tough like now, and there's a good possibility of both a job loss and an unexpected expense, build up your reserve even more. How? By putting off some purchases, like clothing, and cutting back others, like fast food, eating out, and cable TV.

Here's an even stronger rule of thumb with respect to saving:

- Save at least 10% of every paycheck.

You've probably seen this one; it shows up pretty regularly when finances are the subject. Unfortunately, 10% just ain't enough. You're not going to be able to cover all of your unexpected expenses and pay for a reasonable portion of college for the kids *and* accumulate enough for retirement by saving just 10%. Especially if you don't start saving before you're age 30.

So start with 10%, but increase it whenever your pay goes up. Increase it as you work down your debt. Increase it whenever you can.

Why is it so much easier to take on debt, where you have to pay someone else, than it is to save, where you pay yourself? Especially when money you save can still be spent if you choose to, but money spent is gone. And money spent that you didn't have in the first place is, well, I'll let you complete that sentence.

Two more rules of thumb for you — a couple of my favorites. First,

- If it sounds too good to be true, it is.

This one is especially important now when there seem to be so many who are looking for ways to separate you from your money. There aren't any special investments that will get you double-digit returns without any risk to your principle. There aren't any programs that allow you to simply walk away from 40, 50 or 60 percent of your debt. There's no magic wand to wave and quickly cure whatever financial problem you may have.

And now for the single most important rule of thumb:

- Give 10% to God.

Look, I know times are tough. And giving to God seems so, well, discretionary. Giving to God just doesn't seem to have the immediacy that other things do. After all, He's not going to repossess anything or throw you out onto the street.

But everyone I know who is giving 10% to God off the top says the same thing: They've never felt more comfortable with their financial situation.

And that's not just their thumbs talking!

Want a little help with some aspect of your financial life? **Call the Budget Guy**, Allen Gunter, at 301-1246 or send an email to *BudgetGuy@SHPC.org*. I will help you in any way I can, and it's free and completely confidential. **If you'd like to learn how to get out of debt and build financial security in a small group setting,** ask Roger Wade (301-4921; *rcwactuary@austin.rr.com*) about the Dave Ramsey Financial Peace University program at SHPC.

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On that day, we celebrate God's power, peace and presence with us through the Holy Spirit. A normal day transformed by God into one tremendous significance. See you there!