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BUSINESS NEWSLETTER

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Monthly Focus

Debt Rate

What is it?

Debt Rate (Dr) is the percentage of a client's annual gross income being allocated toward required debt payments.

CALCULATION

$$\frac{\text{Total Annual Debt Payments}}{\text{Total Personal Income}} = \text{Debt Rate}$$



Important Perspectives

Score Range

Low	Average	High
10-15%	20-30%	+40%

Managing our debt is a key factor in our financial lives. Debt that is used wisely can accelerate the rate of return on investments like real estate and help your business to scale faster. However debt that is not managed wisely can set you back years and be weight around your neck.

Your main goal with debt should be to increase your net worth. So anytime you take on debt you should anticipate having the investment create more income than the debt is costing in interest. In business a metric that is tracked is called "return on invested capital(ROIC). The ROIC is the amount of money a company makes that is above the average cost it pays for its debt and equity capital. Warren Buffet is quoted as saying, The higher the return on capital, generally speaking, the better the business. It's even better when such businesses can re-invest more capital at attractive rates of return." For example if you can borrow at say 5% and invest at 8% that continual exchange will cause your net worth to compound over time. If you borrow with this philosophy then your use of debt can be a tool to advance your financial life. Don't use debt to consume only, as you are just spending future earnings which means you are planning to be broke longer. Don't take on debt like student loans without a corresponding career advance plan on how that debt will increase your lifetime earnings. Debt can be a great way to finance a business or real estate portfolio while also reducing your tax liabilities. In summary, use debt as a tool to advance your financial future not your current lifestyle.



Company with a High ROIC

HP Inc. (HPQ)

- $ROIC = (\text{Net Income} - \text{Dividends}) / \text{Invested Capital}$
- Return on invested capital: 168%
- A High ROIC generally will suggest a company is generating value from its operations and these firms can often trade at a premium (HP has outperformed the broader market the last 5 years after underperforming the previous 5).
- In reviewing the ROIC you will want to ensure the return is not based on a one-off event. For example the sale of an asset at a windfall gain. It will temporarily increase income but not sustainable
- Company Report [View](#)
 - This is not an endorsement to buy or sell securities this is just for illustration purposes only.



Student Loan Forgiveness is when you are no longer required to repay some or all of your student loans. You are able to get Student Loan Forgiveness if you are a federal student loan borrower. Now there are four types of programs that you could apply for, if eligible, to receive forgiveness. The four programs are Income-driven Repayment Plan, Total and Permanent Disability Discharge, Public Service Loan Forgiveness, and lastly, Teacher Loan Forgiveness.

The first forgiveness program is an Income-driven Repayment Plan. This plan sets your monthly student loan payment at an amount that is intended to be affordable based on your income and family size for a set number of years. There are four additional programs inside of the Income-driven Repayment Plan such as the following:

- 1.Revised Pay As You Earn Repayment Plan (REPAYE Plan)
- 2.Pay As You Earn Repayment Plan (PAYE Plan)
- 3.Income-Based Repayment Plan (IBR Plan)
- 4.Income-Contingent Repayment Plan (ICR Plan)

First, you cannot be in default on the loan if you are trying to receive forgiveness for. If this is the case, immediately contact your loan provider to work with them to get this loan out of default. The sooner the better because you can be costing yourself hundreds or thousands of dollars in interest.

To qualify for the PAYE and IBR Plans, the payment you would be required to make (based on your income and family size) must be less than what you would pay under the Standard Repayment Plan with a 10-year repayment period.

Under the ICR Plan, any borrower with eligible federal student loans can make payments under this plan. This plan is also the only available income-driven repayment option for parent PLUS loan borrowers.

Lastly, the REPAYE Plan is for any borrower with eligible federal student loans.

The second forgiveness program is the Total and Permanent Disability Discharge. This program relieves you from having to repay a William D. Ford Federal Direct Loan (Direct Loan) Program loan, a Federal Family Education Loan (FFEL) Program loan, and/or a Federal Perkins Loan or to complete a TEACH Grant service obligation.

You qualify for the TPD discharge plan if you can provide documentation from one of three sources:

- 1.the U.S. Department of Veterans Affairs (VA)
- 2.the Social Security Administration (SSA)
- 3.a physician

There are specific requirements for each type of supporting documentation that you can submit to show your eligibility. The <https://studentaid.gov/manage-loans/forgiveness-cancellation> website will provide you with more information regarding what may need to include with your supporting documents.

The third forgiveness program is Public Service Loan Forgiveness (PSLF). PSLF forgives the remaining balance on your Direct Loans after you have made 120 qualifying monthly payments under a qualifying repayment plan while working full-time for a qualifying employer.

To qualify for the PSLF, you must:

1. be employed by a U.S. federal, state, local, or tribal government or not-for-profit organization (federal service includes U.S. military service);
2. work full-time for that agency or organization;
3. have Direct Loans (or consolidate other federal student loans into a Direct Loan);
4. repay your loans under an income-driven repayment plan*;
and
5. make 120 qualifying payments.

The last forgiveness program is the Teacher Loan Forgiveness. To qualify for the Teacher Loan Forgiveness you must teach full-time for five complete and consecutive academic years in a low-income elementary school, secondary school, or educational service agency, you may be eligible for forgiveness of up to \$17,500 on your Direct Loan or FFEL Program loans.

You can easily be eligible for anyone of these forgiveness programs. Take the information and go see if you are eligible. Remember you could be saving thousands of dollars.

Tips for Month

1. Create a census of your total debt include balance, payments and interest rates
2. Evaluate if you need to do a refinance or a balance transfer on any of your credit lines
3. Calculate the amount of interest you're paying each month and the return you would need to justify saving vs making extra payments. You should do this prior to taking on debt as well.
4. Determine minimum level of emergency fund you want and apply excess liquidity towards high interest debt.

This information is for educational purposes only and doesn't apply to anyone specifically. It is not to be construed as legal, tax or financial advice.



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