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QA with Lynnette Khalfani-Cox

by Jen A. Miller
Monday, September 20, 2010

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10 years ago she had $100,000 in debt; today she's debt-free.

Lynnette Khalfani-Cox is a personal financial whiz. The former Wall Street Journal and CNBC reporter is now a money coach and a go-to financial expert for Oprah Winfrey, Fox Business, Dr. Phil and CNN.

But 10 years ago, despite making a six-figure salary, Khalfani-Cox had racked up $100,000 in credit card debt. She used plastic to pay for everything, from trips to clothes to dinners, even using cash advance checks to pay for her children's private school tuition and to buy land.

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When she finally tallied up all her debt and saw she'd crossed the $100,000 mark, she decided to make a change. She paid it all off in three years -- a time in which she was laid off and got divorced.

Since then, she's written seven books on personal finance, including "Zero Debt: The Ultimate Guide to Financial Freedom," and "Perfect Credit: 7 Steps to a Great Credit Rating," which has just been published.

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Lynnette Khalfani-Cox, Author, 'Perfect Credit'

Today, she's a personal finance expert, sought-after TV and radio personality and the author of seven books, including her latestLynnette Khalfani-Cox "Perfect Credit: 7 Steps to a Great Credit Rating." You wouldn't have known it 10 years ago, though. Back then, Lynnette Khalfani-Cox had managed to rack up $100,000 in debt. Three years later, using a variety of debt reduction techniques, she paid it all off. Find out how she achieved such a lofty goal in this Q&A interview with CreditCards.com.

CreditCards.com sat down with her to find out what changes she had to make to get out of debt.

CreditCards.com: Tell me, what you do now?

Lynnette **Khalfani-Cox:** I work as a money coach. I teach people how to get financially fit, primarily how to manage credit and debt wisely. I talk about all kinds of topics, from investing and real estate, to saving money and budgeting. But credit and debt are my two favorite areas to talk about because I've struggled in those areas. Those are probably the two most burdensome topics for most people.

CreditCards.com: In the introduction to your new book, "Perfect Credit," you thank people who didn't do you any credit favors -- Hyundai for repossessing your first car, the bill collector you call "Mr. Johnson," and family who didn't co-sign loans. Why?

Khalfani-Cox: I was trying to be humorous, and I was trying to tell people, "Look, I've struggled with credit and debt issues as well and you know what? With a little time and distance, you get a little perspective."

At the time, I thought it really was so unfair. I did rebel and think, "Oh this is so terrible and look at the big, bad credit card companies."

It was a tough lesson, but you can be darn sure I've never missed a car payment ever again. I've been a lot smarter about the way in which I use some forms of credit. It didn't stop me from getting into debt, but I learned no matter what happens, you pay your bills on time.

CreditCards.com: You say you were making six figures but still racked up $100,000 in debt. What happened?

Khalfani-Cox: I know now that people get into debt for two primary reasons. Some kind of misfortune happens to them -- downsized, going through a divorce, becoming disabled, death of the main breadwinner of the family.

The other group of consumers who can get into trouble are overspenders or poor money managers. I was in that category. I certainly hadn't learned how to manage money at all. Compounding that problem was that I was an overspender. I had a nice six-figure salary, but I was living as if I was earning seven figures.

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[See How One Student's Debt Grew to $555,000]

I spent on everything: frequent travel, vacations, kids in very, very, expensive private school, treating people to dinners, clothes, stuff for the kids.

I still go through these periods where I'll get extremely disgusted by the stuff that I have. When I had gone through my debt problem, I was with my ex-husband. We separated and divorced right after that. In 2005, I was living by myself. Even when I left, I left everything. All I took was my computer and my printer so I could work and keep my business going.

He still had boxes of my personal belongings, and I thought, I don't want any of this and don't need any of this. I literally ended up donating 15 boxes of stuff, including some dresses and suits with tags still on them.

Here it is 2010, and I'm very much in control of my spending -- with the exception of travel! It's not that I don't like nice things or want to have certain things. But I realized the ramifications of doing it in an unbridled fashion. Now I know I'd much rather have experiences as opposed to just things.

CreditCards.com: Did you hit a rock bottom point that made you say, "I need to change this?" You divorced and were laid off during the time you were paying off the debt, so it must have been difficult.

Khalfani-Cox: No, I can't blame either my divorce or my loss of income as the reason behind my debt. It might have exacerbated and caused other problems and financial stress.

It was vanity, and being cut off from my creditors that made me change. I was maxed out on most of my credit cards. I couldn't get my creditors to extend my lines anymore, and I'm talking big lines -- $10,000, $15,000, $20,000. I would get declined when I tried to use my cards.

I was doing a lot of things right. Sometimes when people know about my story, they think, "Oh my God, you were a financial professional giving people advice?" That is true, but I certainly don't want to give the impression that I was a complete basket case. I had a very healthy six-figure 401(k) because I had been saving and investing. I had created a will. I had disability protection. I had life insurance. So I had some level of cushion that I think a lot of people don't traditionally build up when they're struggling financially.

For me, it was just my spending. It was totally out of control, and I was able to justify it in my head because everybody was getting paid, no creditors were calling my house. I didn't even see how much of a danger zone I was in, but I was definitely way, way, way in the red zone.

CreditCards.com: Paying down $100,000 in credit card debt in three years seems impossible. How did you do it?

Khalfani-Cox: It wasn't like I did one strategy and whoops this got me out of debt. It was the pile-on effect of so many strategies.

[See 10 Simple Steps to Freedom from Credit Cards]

First, I had to totally revamp my spending habits and stop all the frivolous spending. I nixed the travel, the eating out and treating friends. At the time my, two older kids, who were 3 and 5, were in a private school that cost $20,000 a year. I took them out of that expensive private school and put them in a less expensive private school that was a third of the cost.

I really had to come to the realization that I was hurting them in the long run by showing them bad financial habits, and driving the family more into debt when they could get a great education without us having all these fiscal burdens. I had paid for the private school tuition with credit card cash advance checks. My ex and I bought two plots of land in Newark, N.J., through a city auction for about $37,000. We used the credit lines even for that.

Of course, I negotiated with my creditors. It's different environment today, but I'm still a firm believer that you should get on the phone and negotiate. I got all my credit card interest rates knocked down to 6.9 percent and lower.

I did balance transfers as well -- that's a short-term strategy. I also used windfalls. Every single bit of extra cash that came my way -- expected or unexpected -- went to the debt. Tax refund checks, holiday bonuses, gifts. It's very common for people to blow windfalls. Now I tell consumers I don't care if you're getting government stimulus money, tax refund, whatever -- just don't blow that money. You'll never regret using a windfall to pay off a debt, but you'll regret spending it.

The credit cards aren't the problem. We're the problem.

I also started doubling and tripling my minimum payments because I figured out that minimum payments were a trap. I'd been making all these payments, but I was still treading water and wasn't getting anywhere. It wasn't until I started doubling and tripling those payments that I really started seeing those balances decline.

I also opted out of getting additional credit card offers. I think when you are deep in debt you don't need that extra temptation.

From 2001 to early 2004, I paid off about $70,000 worth of the debt. My ex-husband and I separated in 2004, then we sold that land in Newark. We took $30,000 from that sale and put that toward the credit card debt and then the debt was gone.

CreditCards.com: Why are credit cards such a problem?

Khalfani-Cox: The credit cards aren't the problem. We're the problem. One of the reasons that credit card debt is so difficult for people to manage is that you use credit cards more frequently than you use any other credit or any other loan. Every single day, every single hour, you have an opportunity to use credit cards.

Obviously there are much bigger levels of debt, but that mortgage comes and goes. It's once a month, and for the most part, you're not adding to it. The balance should be going down, just like installment debt -- student loans, car loans, for example.

With credit cards, you have so much more opportunity to get in trouble.

CreditCards.com: If someone is reading this and feeling overwhelmed, what is your advice?

Khalfani-Cox: Keep the faith. This probably sounds so Pollyannaish, but I have to say it because I've gotten so many extremely depressing e-mails -- suicidal e-mails even. I would say I know it's very tough, but hang in there. It is going to get better.

This doesn't mean you're a failure. It doesn't mean that your life is over and you're done because you've dug yourself into this hole. It means that you're going through a tough period and brighter days are going to be ahead.

So many people who write me don't even want financial advice. They just want to know if there's hope for them. I say yes, of course, there's hope. You can dig yourself out of this. You can have reduced financial stress or no financial stress. Having been in the thick of it, I know what it's like to be in that foggy, burdened-down place. Keep chipping away. Keep digging yourself out.

It's painful what we're going through as a country, but it's so necessary. It's going to strengthen us all in the long run. The idea that the economy has been so supportive and so propped up by consumer spending on credit -- I question whether that will continue to hold up as people start to realize the value of saving more and using credit wisely.

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Sam 26 seconds ago | Report Abuse 0 0

Nothing but a shameless plug for a book. That's all this column is....

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we don't "qualify" for minority, poverity, etc, and bankruptcy isn't an option but it sure is looking better and better. Will we get to live in our "free" house then? Probably not! Just another one "selling" advise -- buy my book and it'll help you (plus I'm getting money from you then, haha!)

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Connor McManus 45 seconds ago | Report Abuse 0 0

Ummm, anyone ever heard of Dave Ramsey? He teaches this stuff all day long.

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Diane 45 seconds ago | Report Abuse 0 0

She didnt say how long she was laid off and a divorce has nothing to do with spending more than what you make. Maybe writing a book about how hard the average person works and what little they get paid would get me into six figures. It must be nice to throw money away when others are working so hard for it. This woman is more embarrassing than she is helpful. Please find someone within the middle class to talk about these

issues. Some kind of misfortune that happened to them -- downsized, becoming disabled, death of the main breadwinner of the family or maybe someone within the middle class that works so hard for a raise they just dont get because the bonus was given to the boss that does nothing. How about them apples!

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Randy E 1 minute ago | Report Abuse 0 0

This woman is just out to make money for herself and not for the benefit of anyone else....to good to be true everyone..Dont bother

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Katharine 1 minute ago | Report Abuse 0 0

Dave Ramsey does it better.

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Are you still single? Are you still feel alone that nobady know about your life, your dreams, experiences and ideas? Do you want to meet singles for love. Check my name .you will find what you need.

...private school isnt even an option. i get tired of reading tips of controlling debt of the rich... give ideas on how everyday people can save...people who dont own 10 cars and million dollar mansions.

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MargieN 2 minutes ago | Report Abuse 0 0

I am so impressed with you. I have and am doing much the same I made deals and just keep paying that include the IRS, cards it doesnot matter just keep the faith it works out.
Margie

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Jeff 2 minutes ago | Report Abuse 0 0

Her reponses are generic at best. Anyone knows that if you pay double or triple the minimum payment your debt goes away quicker. I true advisor will tell what needs to happen if you cant pay the minimum, if you do not have property to sell. This is a joke anyone who buys this book is an complete idiot.

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Donnac 3 minutes ago | Report Abuse 0 0

Just because credit card company give us a card, they feel most people can do it and then they destroy our pride as people who work for the money, we don't take advantage of them they take advantage of us.....pay off all dept and if the money isn't there, don't use a credit card, we need to dissolve the credit card company and always pay with cash...

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