The Other Side of the Ledger

Manage your debts or they will manage you.

BY WILLIAM J. LYNOTT

Every podiatric practice incurs debt. It's a normal part of business operation. When it comes to managing that debt, keeping it from becoming a serious financial strain on your practice, the job lies directly in your own hands. Your broker isn't going to do it, your accountant isn't going to do it, your brother-in-law isn't going to do it. If you don't do it, it's not going to get done. And skillful management of your debt load is a primary requisite to avoid heading down the road to financial oblivion.

In debt management, as in life, knowledge is power. Knowing exactly what your debt load is on a periodic basis provides the foundation for taking control of those debts.

As with a photo, life moves on and so does your debt load. That's why it's so important to calculate those obligations on a periodic basis. Whether the result is good or bad news, you need to know where you stand and in what direction you are moving. An old business slogan cautions, "You can't manage it if you can't count it." Nowhere is that more incisive than in debt management.

The job of calculating the debts and liabilities that must be charged against your business assets may not be a fun exercise, and it involves a bit of work, but it provides an essential dose of reality. Here is a reminder of some of the liabilities that your practice may have:

• *Credit Card Debt*—The almost universal use of credit cards almost guarantees that credit card debt is a part of the total debt obligations of your practice.

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• *Other Charge Accounts*—If you have any charge accounts with vendors, suppliers, or other businesses, these outstanding balances must be included as part of your total liabilities.

• *Payroll Obligations*—Unpaid payroll expenses, if any, are a part of total debt load.

• *Outstanding Loans*—Until you list them on paper or in your computer, you may not realize how fast they add up. In this category are auto loans, mortgages, business renovation or expansion loans, supply purchases on credit, and the remaining balances on any other outstanding loans.

• *Outstanding Bills*—Don't forget those outstanding bills sitting in a drawer. This category includes unpaid workman's compensation insurance, rent, business insurance, life insurance, medical insurance, auto insurance, and outstanding rent and utility bills.

• *Unpaid Taxes*—Among the easiest to forget when calculating total debts and liabilities are unpaid taxes. This includes not only federal and state income tax bills or esti-

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Ways to Manage Debt

• **Stop further credit card purchases** and unnecessary spending entirely.

• **Pay down the balances on credit cards** that charge the highest interest rates first while paying at least the minimum due on all your other debt. Once you've paid off your highest interest debt, pay down the next highest, and so on.

• **Don't borrow money against your home or your 401(k)** to pay off existing business debts. What may seem like an easy solution could cause you to lose your home, your practice, or undermine your retirement plans.

• **Beware of debt consolidation.** Avoid the temptation of companies that offer to "consolidate" your debts into one easy-to-pay-off loan. In many cases, this will do nothing more than add another layer of debt. While there are reputable non-profit debt counseling agencies that may be able to consolidate debt and assist in better managing finances, there are also many disreputable agencies that are best avoided. Research carefully before taking this course to manage debt.

• **Avoid taking on new debt.** Unless your debt load is manageable and under control, taking on new debt should be avoided unless absolutely necessary.

• **Talk with creditors.** If you are behind in any payments, contact the creditor and make sure that he or she understands that you are working to catch up. Most creditors will tend to be lenient with a debtor who keeps in touch and shows evidence of making a sincere effort to pay off the debt.

• **Avoid aged payables of 60 days or more.** Payables of 60 days or more will almost certainly lower your credit (fico) score, which in turn, will limit your ability to borrow money and keep you from getting the best terms from suppliers and vendors. Make every possible effort to avoid any payable from aging 60 days or more.

• **Prioritize debts.** Rank your debts in the order that you want to pay them off. If credit card debt is part of your debt load, paying it off first will usually be your best move. Credit cards often have the highest interest rates of all debts. Carrying that debt can be very costly. If more than one credit card is involved, pay off the one with the lowest balance first.

• **Always know where you stand.** Most experts agree that one of the most important tools for managing your debts is an exact knowledge of the amounts and types of those debts at all times. Good computerized software is essential for this task.

• **Business vs. Personal Finance.** While there may be times when it may seem convenient to handle a business transaction with personal money, or vice versa, this is a serious mistake. Not only will it make it difficult to keep finances separate, it will make both your accountant and the IRS very unhappy. Don't do it.

The best tool for managing debts is a conservative and disciplined approach to the use of credit before it becomes unmanageable. These tips will help to achieve that goal:

• ***Start with a system designed to keep track of how much you owe*** at any given time and to whom.

• ***Never fall into the trap of paying bills late.*** That is often the beginning of a downward spiral in debt responsibilities.

• ***Never pay less than the minimum payment due.*** Some bills, credit cards for example, provide a "minimum payment" due. Paying only the minimum payment on such bills exposes you the often-oppressive interest rates charged by such creditors. Even worse is paying less than the minimum payment. This can be a financially catastrophic failure.

• ***If possible, create an emergency fund*** set aside to fall back on in the case of an unexpected bill.

• ***Create a computerized monthly bill payment calendar*** with reminders of dates due for regular repetitive bills.

Sometimes, debt loads seem to take on a life of their own. If, despite your best efforts, you find yourself in need of help in managing your debts, consider logging on to https://www.nfcc.org/for in-depth, personalized financial counseling and education. ●

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mates due, but also real estate and personal property taxes due in some states as well as city and other local taxes.

Never forget that unpaid taxes run the risk of government intervention. Governments have the authority to seize your assets including bank accounts, even your personal assets such as your house or car.

• *Student Loans*—If you are a young practitioner, you may have outstanding student loans, which may constitute the bulk of your debt load. All of these and any other debts that your practice may have must be totaled in order to provide you with an exact picture of your debt load. Good accounting software is vital here. Without it, or a computerized spreadsheet, the job of keeping track of your debts on a periodic basis may take more time than you're willing to spend.

If your debts are growing, resulting in overdue payments, it's time for you to take immediate action.

If you find your practice much deeper in debt than you imagined, there is no need for alarm, only an understanding that there are steps you must take to get that debt load back under control.

Once you have added up all of your outstanding debts and the status of each one, you'll know whether your debts are under careful control, or whether you have a debt load that is spiraling out of control to the point of endangering the future of your practice. If your debts are growing, resulting in overdue payments, it's time for you to take immediate action.

If you run your practice as a sole proprietor or partnership, keep in mind that you could be held personally liable for business debts, which could result in creditors trying to seize your assets. This is one reason for forming a limited liability corporation (LLC), which offers some protection against this possibility.

Like castor oil, the medicine required to bring unmanageable debt under control can be difficult to swallow. Obviously, the sensible way to avoid the catastrophic effects of overspending your limits is to start with strict personal discipline in the use of credit and credit cards. By never spending more than you can pay off when the bill arrives, you'll separate yourself from the crowd.

Whether your debt load is heavier than you'd like, or within reasonable limits, these tips will help you to take and keep control of your spending.

Understand the Need for Debt Control

Failure to keep payments up-to-date on all debts can result in irreparable damage to your practice. Even one court action by a creditor can result in unrest by your employees, and possible limitations on your credit availability. Debt control is not a passive responsibility. It requires constant attention and action on your part.

Credit Card Debt

Arguably, there is no more dramatic illustration of the destructive potential of unmanaged debt than today's use of credit cards. Just say, "charge it," is the anthem of credit card issuers who are happy to lend you their money for your purchases knowing full well that a goodly percentage of users will be drawn into their highly profitable "minimum amount due" trap.

The only rational way to use credit cards is to spend no more than you can pay off in full every month.

According to CreditCards.com, the average American household with at least one credit card had nearly $15,950 in credit-card debt in 2017. Any person or professional practice with that kind of balance due on a credit card has almost certainly been lured into the ploy of "minimum amount due". By overspending their limits and paying only the minimum amount due each month, these unfortunate victims are saddled with an average interest rate on the balance that runs in the mid-to-high teens or higher at any given time.

For many, that combination of high debt and high interest rates produces a perfect storm of unmanageable debt from which it will be extremely difficult (and often impossible) to escape.

The obvious lesson: The only rational way to use credit cards is to spend no more than you can pay off in full every month. To ignore that dictum is to place yourself squarely in the clutches of the Credit Card Monster.

For many people, that advice comes too late. For any practice saddled with credit card and other types of debt, strong debt management medicine is the only cure. **PM**

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