PATH to Prosperity

How Changing Your Money Mindset Can Change Your Financial Reality

SIMI MANDELBAUM, CFT-I, AFC, FBS®

PLAYING THE GAME

Enough Is Enough

Devorah and Kalman Feldman* were at an impasse.

"I don't understand why we're going in circles," lamented Devorah on the phone.

Neither did I, but I knew the tools to help us find out.

To buy or not to buy

Our intake call showed that the Feldmans were married for five years, with three small children. The couple genuinely respected each other and usually saw eye to eye. Now, we were sitting at our first session.

"It's time to buy a house," Devorah began, jumping straight in. "We've outgrown our basement apartment, and Kalman's earning enough for us to put away savings each month."

Kalman took his turn. "We definitely need a larger apartment," he agreed. "But we're not ready for a house. I haven't been working long enough, and we don't have enough money put away. If we overextend on a mortgage, we'll barely make it through each month."

"But you won't even find out what we can afford!" Devorah interrupted, clearly frustrated.

"Everyone knows about the out-of-control prices and interest rates," answered Kalman.

Devorah's face registered pain and frustration, and it was clear that they were heading down a well-worn path.

"Buying a house would be financial suicide," Kalman concluded.

The financial therapy approach

I took a deep breath. "Kalman and Devorah, let's play a game."

The surprise on their faces was a welcome change from the hurt that was there moments earlier. You may be surprised, too, so let's take a few steps back.

Conventional wisdom is that the Feldmas' next step is to open a spreadsheet. Financial coaching could help them analyze their finances; the numbers will "prove" that either Devorah or Kalman is right. Then, financial counseling could advise the couple on money management, credit building, or any other area that would prepare them for homeownership.

But there's often a necessary step before financial coaching or counseling. Financial therapy helps clients understand why and how they think and feel about money. In my practice, I've seen over and over that that's where the money magic happens.

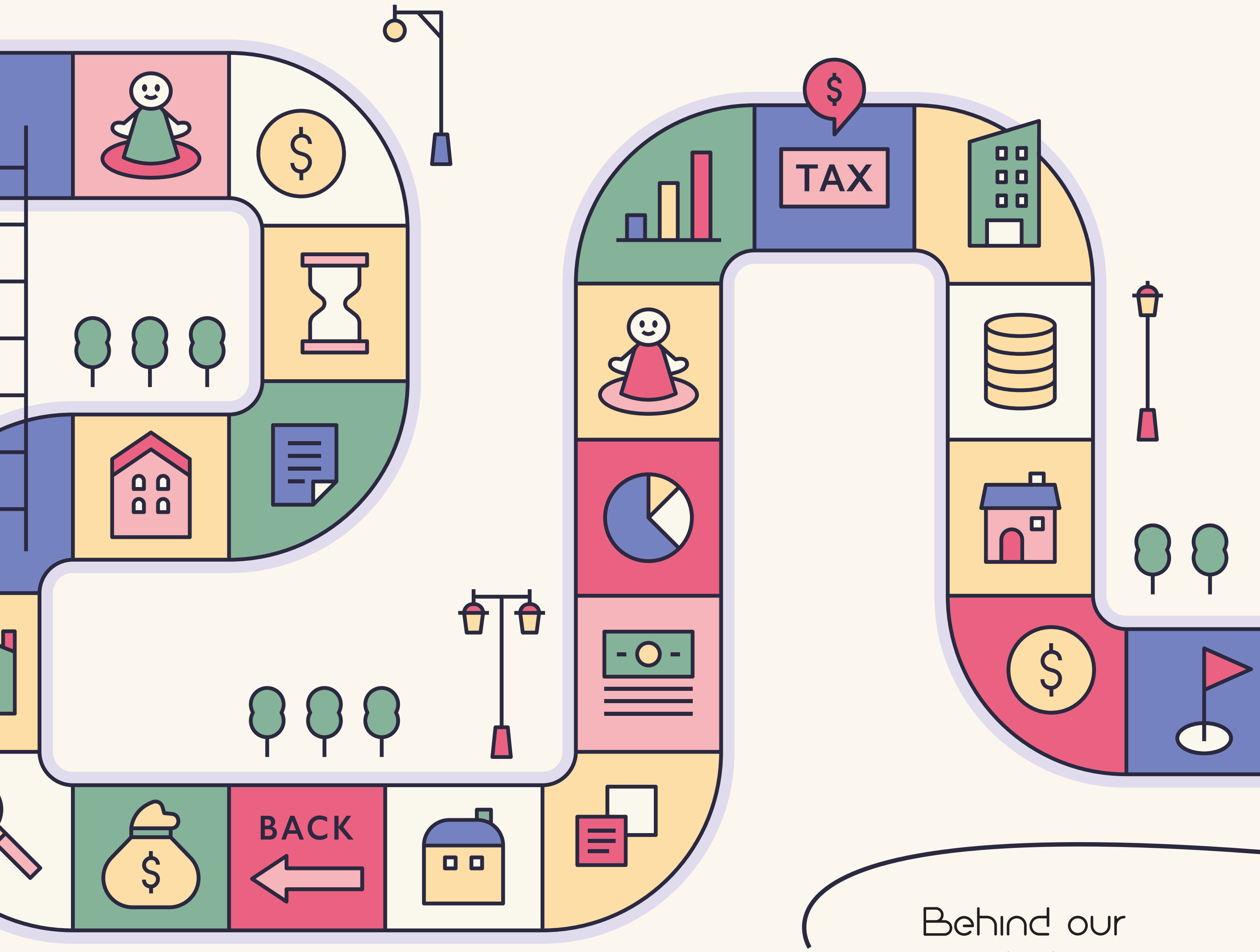
Behind our money behaviors are deeply rooted money mindsets. If we try to change our behaviors without addressing the mindsets, we're doomed to unhappiness and failure. Often, money mindsets are the hidden cause of internal and external conflict.

Back to Kalman and Devorah. If we went directly to the spreadsheet analysis, one of them would give in, but neither would be truly happy. They might buy a house, but they wouldn't prosper. We had to resolve the root cause of their disagreement.

The My Enough game

The My Enough game is one of my go-to financial therapy tools.

"Every person comes into a relationship with specific expectations. What feels like enough to one might not feel like enough to the other," I explained to Kalman and Devorah. "This game uncovers those



discrepancies so we can move away from blame and into understanding.

"I'm going to present fifteen categories," I continued. "Select your answer on the 'self' line and what you think your spouse would answer on the 'spouse' line. The game covers credit card debt, health insurance, eating out, vacations, and more."

I shared an example:

SHABBOS

What is enough to serve at the table?

	1. Salmon/cholent	2.	3. Sushi/roast	4.	5. Sea bass/meat boards
Self	○	○	○	○	○
Spouse	○	○	○	○	○

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Devorah and Kalman answered the questions and started comparing results. They looked relieved as their answers more or less matched up. Until we got to the housing question.

HOUSING

What living arrangement is enough?

	1. Rent	2.	3. Own a 3 bedroom	4.	5. Own a 6 bedroom with a pool
Self	O	O	O	O	O
Spouse	O	O	O	O	O

Devorah clicked number 2, above renting but below needing a three-bedroom house. Kalman chose number 5, owning a six-bedroom house with a pool.

"You don't want a big house?" he asked Devorah incredulously.

"Of course not," Devorah answered.

We'd found our mystery problem: misaligned money mindsets.

(Intrigued? Play this game *before* you're caught in a money issue so you can discuss the results without getting carried away by emotions. Go to prospr.fit/game and enjoy.)

Getting into alignment

Now, we dug deeper. I asked targeted questions to facilitate the couple's understanding of the "why" behind their beliefs. Soon, Devorah identified her true need.

Devorah's parents never owned a home. As a young adult, she overheard her parents' anxious conversations. How would they pay for her wedding if they had no assets? How would they afford to retire? Devorah was determined not to make this mistake. Buying a house, even a small one, meant having an asset and therefore, financial security.

Devorah's revelation was eye-opening to Kalman. In his experience, a house was a liability. He also assumed that when he inevitably bought one, it would be on a scale way out of his current budget.

With this honest conversation, the blame and guilt melted away. Kalman recognized Devorah's genuine need for security and was motivated to fill it. Devorah recognized Kalman's hesitations and could respect them. They were ready to collaborate.

Notice that I wrote "collaborate," not "compromise." Compromise means giving in and giving up something. For example, if we both want the last lemon, the compromise is that we split it in half. But if we communicate and see that I only want lemon juice and you want the rind for a recipe, we can collaborate and each get what we need.

Path to prosperity

Now, the Feldmans and I could finally look at some numbers. When considering a mortgage, it's most helpful to look at financial debt ratios. These are the formulas that banks use to qualify applicants (see sidebar). We calculated what the Feldmans could reasonably afford as a down payment and as a monthly payment. Having done the financial therapy work, our conversation was logical and stress free.

The Feldmans' next stop? A real estate agent.

**Names have been changed.*

Simi Mandelbaum CFT-I, AFC, FBS® is the founder and CEO of PROSPR Financial Wellness. Although she loves helping families align their money mindsets, she's still not sure if her van needs a two-wheel or four-wheel alignment.

Understanding debt through financial ratios

There are two main ratios to look at when considering a mortgage.

1. Debt-to-income (DTI) ratio = annual debt payments ÷ annual gross income

Answers the question, "Will the bank likely approve me for a mortgage?"

Annual debt payments include your minimum credit card payments, car leases, other debt, and the expected mortgage payment. Annual gross income is your total yearly income, as shown on your W-2, before taxes.

Mortgage lenders want the DTI to be no higher than 36 percent.

2. Housing expense-to-income ratio = monthly housing expenses ÷ monthly net income

Answers the question, "Will this mortgage push my housing expenses too high?"

Monthly housing expenses go far beyond mortgage payments. They include real estate taxes, homeowner's insurance, utilities, landscaping, HOA fees, maintenance, and repairs. Monthly net income is your take-home pay, as shown on pay stubs, after taxes.

Housing should cost 28 percent or less of a family's net monthly income.

Your bank may approve your mortgage based on your DTI even if your housing expense-to-income ratio is too high. You'll make your mortgage payment each month but struggle to cover your other bills. It's crucial to consult with a qualified financial counselor who can help you assess your total finances.

If these ratios calculate unfavorably, don't despair. Knowing where your finances stand is the first step toward prosperity. Now, you can set and achieve financial goals for the future.