



DUMPING DEBT

BREAKING THE CHAINS OF DEBT

Debt is the most successfully, aggressively marketed product in history. What? Debt isn't a product, is it? You bet it is. And it isn't just sold by banks and credit card companies anymore. Many national retail chains make more money on the sale of credit applications than they do on the actual merchandise they sell.

In *Dumping Debt*, Dave blows the lid off the credit game, debunking the leading myths about debt that have become ingrained in our natural way of thinking. Then he walks you right out of debt with his simple, clear and effective debt snowball technique.



M
No one can serve two masters. Either he will hate the one and love the other, or he will be devoted to the one and despise the other. You cannot serve both God and Money.

—MATTHEW 6:24 (NIV84)

Debunking the Myth

If you tell a lie or spread a _____ often enough, loud enough and long enough, the myth becomes accepted as _____.

Debt has been _____ to us in so many forms and so aggressively since the 1960s that to even imagine living without it requires a complete _____.

The rich rule over the poor, and the borrower is slave to the lender.

—PROVERBS 22:7 (NIV)

Credit Card Myths

MYTH: You need a credit card to _____ a car or make _____ online.

TRUTH: A _____ card will do all of that.

MYTH: “I pay mine off every _____ with no annual fee. I get brownie points, air miles and a free hat.”

TRUTH: More than 100 million Americans do _____ pay off the balance every month.

TRUTH: When you use plastic instead of cash, you spend more because you don't _____ it.

MYTH: “I'll make sure my _____ gets a credit card so he/she can learn to be responsible with money.”

TRUTH: Teens are a huge _____ of credit card companies today.

Any money you owe to anyone for anything is debt. That includes credit cards, student loans and car loans!

I figured out that credit cards are not for emergencies. That's what I have savings for. DUH!

—Jennifer



If you do rich people stuff, you get rich. If you do poor people stuff, you get poor.

Car Myths

MYTH: Car _____ are a way of life, and you'll always have one.

TRUTH: The typical millionaire stays away from car payments by driving reliable used cars. That is _____ they became millionaires.

MYTH: _____ your car is what sophisticated financial people do. You should always lease things that go down in value. There are tax advantages.

TRUTH: *Consumer Reports*, *SmartMoney* magazine and a good calculator will tell you that the car lease is the most _____ way to finance and operate a vehicle.

MYTH: You can get a good deal on a _____ car.

TRUTH: A new car loses about _____% of its value in the first four years. This is the largest purchase most consumers make that goes down in value.

GUIDELINES FOR ALL VEHICLES

1. The combined value of all your cars, motorcycles, boats and other vehicles should not be more than half your annual income—even if they're all paid for. If it is more than that, you have too much money tied up in things that go down in value.
2. If you can't pay off the car and all your other debts within two years, you should sell the car. You don't have room for it in your plan.

Lending Myths

MYTH: The home equity loan is _____ for consolidation and is a substitute for an emergency fund.

TRUTH: You don't go into _____ for emergencies.

MYTH: Debt consolidation _____ interest and you get just one smaller payment.

TRUTH: Debt consolidation typically saves little to no interest because you will throw your low-interest loans into the deal.

TRUTH: You can't borrow your way out of debt.

TRUTH: Smaller payments equal more time in debt.

TRUTH: Debt consolidation is a _____.

MYTH: By _____ a loan, you are helping out a friend or relative.

TRUTH: The bank requires a cosigner because the person isn't likely to _____. So be ready to pay the loan and have your credit damaged because you are on the loan.



Owe no one anything except to love one another.

—ROMANS 13:8



It's stupid to guarantee someone else's loan.

—PROVERBS 17:18 (CEV)

FICO? Only if it means
"Finally, I'm Cash Only!"

—Joel



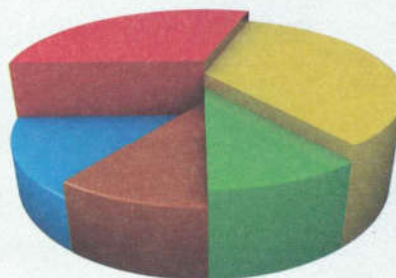
Credit Score Myth

MYTH: You need to take out a credit card or car loan to “build up your _____.”

TRUTH: The FICO score is an “I love _____” score and is not a measure of winning financially.

FICO BREAKDOWN

35% PAYMENT HISTORY
30% DEBT LEVEL
15% LENGTH OF HISTORY
10% NEW CREDIT
10% TYPE OF CREDIT



The Biggest Myth of All

MYTH: Debt is a _____ and should be used to create prosperity.

TRUTH: Debt is proof that the borrower is _____ to the lender.

TRUTH: When surveyed, the Forbes 400 were asked, “What is the most important key to building wealth?” _____% replied that becoming and staying debt-free was the number-one key to wealth building.

Want to bust some more myths? We cover a few more online.



daveramsey.com/fpu/myths

Gazelle Intensity

My son, if you have become surety for your friend, if you have shaken hands in pledge for a stranger, you are snared by the words of your mouth; you are taken by the words of your mouth.

So do this, my son, and deliver yourself; for you have come into the hand of your friend: go and humble yourself; plead with your friend.

Give no sleep to your eyes, nor slumber to your eyelids.

Deliver yourself like a gazelle from the hand of the hunter, and like a bird from the hand of the fowler.

—Proverbs 6:1-5



How much could you _____, invest, blow, and _____ if you had no payments?

Steps Out of Debt

- Stop _____ more _____!
- You must _____ money.
- _____ something.
- Get a part-time _____ or overtime.
- _____ really works.



Pay off all debt using the

_____.



Hope deferred makes the heart sick, but when the desire comes, it is a tree of life.

—PROVERBS 13:12



If you cannot afford the minimum payments on your debts, check out the online tutorial for the Pro Rata Debt List form immediately!

If you're currently in collections or facing bankruptcy, watch the free *Credit Sharks in Suits* lesson online immediately! You can find it in FPU Central.

HAVING A FINANCIAL EMERGENCY?

If you cannot afford even the minimum payments on your debts, or if you are considering bankruptcy or facing pressure from debt collectors, do not lose hope! We have a free bonus lesson just for you!

In *Credit Sharks in Suits*, Dave shows you exactly how to handle phone calls from collectors while teaching you what your rights are under the law. He also unpacks the bankruptcy and post-bankruptcy process, and he shows you how to use the Pro Rata Debt List form to help avoid a lawsuit if you cannot make your minimum payments.

Do not let a collector set the financial priorities for your family! Watch *Credit Sharks in Suits* online at FPU Central today!

ANSWER KEY

MYTH	DEBT
TRUTH	SAVES
MARKETED	CON
PARADIGM SHIFT	COSIGNING
RENT	REPAY
PURCHASES	CREDIT SCORE
DEBIT	DEBT
MONTH	TOOL
NOT	SLAVE
FEEL	75%
TEENAGER	SAVE
TARGET	GIVE
PAYMENTS	BORROWING
HOW	MONEY
LEASING	SAVE
EXPENSIVE	SELL
NEW	JOB
60%	PRAYER
GOOD	DEBT SNOWBALL



One-Minute Takeaway

What jumped out at you in this lesson? How can this affect your story?



Small Group Discussion

True life-change happens when you open up and work through this material together. Break up into discussion groups of no more than 20 people to talk through the following questions. Be honest in your answers!

1

Proverbs 22:7 says the borrower is the slave of the lender. What would your life look like right now if you were totally free with no debt whatsoever? What would you be able to do?

2

If you have any credit or debit cards in your purse or wallet, take a moment to get them out right now. While holding them in your hands, talk about the difference between these two types of cards.



This Week's Homework

Personal finance is 20% head knowledge and 80% behavior. Take charge of your financial behaviors by completing the following tasks this week. Be sure to work with your spouse or accountability partner where noted!



Complete the Debt Snowball form.

Use either the online budget software or the paper form to list your debt snowball.



Discuss your Debt Snowball form.

Singles: Share your Debt Snowball form with your accountability partner and discuss how long it will take for you to become debt-free. Brainstorm ways you can knock out the debt even faster. Review your budget to find ways to cut your spending and free up even more cash for your snowball.

Married Couples: Call a Budget Committee Meeting to review the Debt Snowball form and discuss how long it will take for you to become debt-free. Brainstorm ways you can knock out the debt even faster. Review your budget to find ways to cut your spending to free up even more cash for your snowball.



Chop some plastic.

Even if you didn't cut up your credit cards in class, there's no reason why you can't do it right now! If you aren't ready to cut them up, meet with your accountability partner or spouse and discuss why you originally applied for them and why you've decided to keep them. If you cut up any credit cards that have a zero balance, be sure to call and close the account.



Reading Assignment: Read the "Dumping Debt" chapter in *Dave Ramsey's Complete Guide to Money*.



Extra Credit: Read the "Credit Sharks in Suits" chapter in *Dave Ramsey's Complete Guide to Money* and watch the free lesson online at FPU Central.



The **Top 5** Debt Snowball Questions

It's the Baby Step that Dave is best known for: Baby Step 2, where you use the debt snowball to give your debt the beatdown.

BUT WAIT, YOU MAY SAY. What if I'm investing for retirement? Do I need to stop that? How do I know if I should sell one of my cars? People have a lot of questions when they start their debt snowball, but don't worry. We've got you covered with our top five.

1 Why pay the smallest debt first, instead of the one with the highest interest rate?

The point of the debt snowball is behavior modification. If you put a student loan first because it's got the highest interest rate, you won't see it leave for a while. You'll see numbers going down on a page, but that's it. Pretty soon,

you'll lose steam and stop paying extra, but you'll still have all your debts hanging around.

But when you ditch the small debt first, you see progress. That one debt is out of your life forever. Soon the second debt will follow, and then the next. When you see that the plan is working, you'll stick to it. By sticking to it, you'll eventually succeed in becoming debt-free!

2 How do I know when to sell something or pay it off?

A general rule of thumb is this: If it will take you more than 18-24 months to be debt-free on an

item, sell it. If you are making \$500 monthly payments on your car and it will be another three years before it's paid off, get rid of it. The impact of freeing up that monthly payment, plus not owing a huge car balance, will rock your world.

The same rule goes for boats, rental properties and anything else except your home. Being free of the payment will drastically help your mindset and your wallet as you break the chains of debt. But if you own a motorcycle that will be paid off in a few months, it's all right to keep it. Just get rid of the debt on it!

3 *Should I keep saving for retirement while in Baby Step 2?*

No. You want to commit all your energy and resources to getting out of debt while on Baby Step 2, and diverting money toward retirement savings means you'll stay in debt longer. Don't dilute your efforts; concentrate on one thing at a time.

Even if you get a company match, don't take it while you're eliminating your debts. With a cut lifestyle, extra income from a second job (if you take one) and extreme focus, you'll get out of debt quickly and establish your full emergency fund. Then you can go right back to investing. Being debt-free will more than make up for taking a year or two off of investing.



5 *What if I get laid off while paying off?*

That's scary to think about, but if you lose your job, go into survival mode.

“When you see that the plan is working, you’ll stick to it. By sticking to it, you’ll eventually succeed in becoming debt-free!”

4 *What if a baby is on the way?*

First off, congratulations! A baby is always cause for celebration. What you want to do if you're expecting is to stop the debt snowball and pile up cash. Keep making your minimum payments, but stock away all the



remaining money. If an emergency happens and there are medical bills, then you have the money there to take care of them.

Once your new bundle of joy is home and everyone is all right, then take your saved-up money and apply it to the debt snowball.

Make sure your lifestyle is slashed to the basics. Keep making your minimum payments, but no extra ones. Stop the debt snowball until you find work again (and get a job delivering pizzas or some other work until you land a full-time position with another company).

If you get severance pay, don't kick back and live off of that. Try not to even touch it. Live bare bones and hunt like crazy for work. The sooner you get a new job, the sooner that severance looks like a huge bonus that you can apply toward the debt snowball.

KEY TERMS

Annual Percentage Rate (APR): Annual cost of borrowed money; takes into account the interest rate and other related fees on a loan

Credit: An amount of money placed at a person's disposal by a bank; could be described as a debt limit

Credit Card: Card used to access available funds in a credit account

Debt Snowball: Preferred method of debt repayment; includes a list of all debts organized from smallest to largest balance; minimum payments are made to all debts except for the smallest, which is attacked with the largest possible payments

FICO Score: Number used to evaluate a consumer's "credit worthiness"; calculated by considering credit history, debt level, length of credit history, new debt and type of credit

Introductory Rate: Typically a lower-than-normal interest rate offered to a consumer during the early stages of a loan; a marketing method used to attract new customers

Loan Term: The designated time frame in which a loan must be repaid