

Dave Ramsey Myth Busters

- a) Myth: Debt is a tool & should be used to create prosperity.
 - i) Debt adds risk.
 - ii) Debt brings ruin in a down market since you cannot sell the property you bought with the loan.
 - iii) Debt really isn't used by the wealthy that much
 - iv) People lose when they don't factor in risk (risk of a down market, risk of termites, risk of people changing mind, etc.)
- b) Myth: Playing Lotto / Gambling, can make you rich
 - i) Acts as a tax on the poor and people who can't do Math
- c) Myth: If I loan \$ to friends & relatives, I am helping them
 - i) Strains or ruins relationships. Ever seen this?
 - ii) Shame & Guilt enters the scene when you loan money.
- d) Myth: By co-signing a loan, I am helping a friend or relative (Pv 17:18)
 - i) If you are fully ready to pay the loan yourself, go ahead.
 - ii) Why do you think the bank wants a co-signer?
 - (1) They think your friend or relative won't pay.
 - iii) Why does your friend or relative need a co-signer?
 - (1) Because, without a loan, they can't afford the home/car/item they want.
- e) Myth: Cash Advance, Payday Loans, Title Pawning, Rent to Own, Car Loans help lower income folks get ahead
 - i) What parts of town do you find these kind of shops in?
 - ii) Predatory Lending practices that are ripping off the poor with interest rates over 100%
 - iii) You end up paying for items many times over
 - iv) Used Car lots will finance a car for you at rates that start low and then jump up.
 - (1) Often, the down payment equals what they paid for the car, so anything you pay is profit for them.
 - (2) Then, when you stop paying, they repo the car and do it all over again with someone else.
 - (3) Each time the dealer re-sells the car, he makes pure profit.
 - v) Rent to own gets you to think how much you are paying per week or per month, but not about the total cost you are paying, which is often many times more!
- f) Myth: 90 days same as cash means borrowing for free
 - i) It is Not the same as cash! These stores know that most people do not pay back the loan in 90 days.
 - (1) On day 91, you get BACK charged from day 1 (for the entire 90 day period) at a high interest rate (24 – 38%)
 - ii) Paperwork allows the salesman more opportunities to stick in extra charges (through forgery) since they hold the paperwork for a longer time period.
 - (1) But, with a cash transaction the deal is done and the paperwork cannot be manipulated.
- g) Myth: Car payments are a normal way of life
 - i) New cars lose 60% of their value in the first 4 years (approx. \$60 / week for a \$20,000 car – that is NOT 0% interest!)
 - ii) Average millionaire became one by driving reliable used cars & paying cash for them
 - iii) Instead of having a \$300 car payment, instead save \$300 for ten months and you will have \$3,000 to pay for a used car.
 - (1) You can then save \$3,000 for another year and trade your car up to a better car.
 - (2) You can keep doing this without ever having to make a car payment!!
 - (3) Others will make fun of your junk car, but so what?
- h) Myth: Leasing a car for the tax advantage is smart
 - i) This is the same as renting to own. Interest rate is high, you get fleeced.
 - ii) What if your Accountant says it's a tax write-off for your business?
 - (1) Okay, let's say you lease a car for \$200 / mo, which is \$2,400 / yr
 - (2) That means you are not paying taxes on the \$2,400.
 - (a) Taxes on \$2,400 are \$720, if you are in a 30% tax bracket.
 - (i) This means that you save \$720 as a result of the write-off.
 - (3) Basically, you sent the car company \$2,400 to avoid sending the IRS \$720. Smart Move Dude – NOT!
 - iii) The car company covers the loss in value of the new car you lease, plus a profit, when they calculate the value of the lease payment.
 - (1) The average interest rate on a lease is 14%.
 - iv) A Better business plan for your company is to BUY a used car, then take depreciation or write off the mileage.
 - (1) Use mileage if you drive a lot of miles, use depreciation if you are not driving the car that far
- i) Myth: Debt Consolidation saves interest and lowers your payments
 - i) You haven't solved the debt problem. Have to change your habits first.
 - ii) Often, the debt isn't actually lowered, the payment term is extended. Thus, you end up paying even more interest and stay in debt longer.
 - iii) Only debt reduction makes sense.

- j) **Myth: Borrowing against my home allows me to pay off my other debt**
 - i) Often raises your interest rate & gets you stuck in your house
 - ii) 2nd mortgages can prevent a short sale since the lender will not always release the lien if they know they won't get \$
 - (1) Can negotiate 2nd mortgages down, but better not to get in this position in the first place
- k) **Myth: You need a credit card to build credit. Also, they give you airline miles.**
 - i) Cash buys stuff better
 - ii) Credit prepares you for a life of credit cards, student loans, and car payments. If that is what you want, go for it.
 - iii) You CAN get a 15 year fixed-rate mortgage that only costs ¼ of your take home pay without credit!
 - iv) 60% of people don't pay off their credit cards each month. Do you want to be one of them?
 - v) Debit Cards work just fine.
 - vi) MOST people cannot handle credit responsibly
 - (1) People spend MORE when they use plastic because it does not feel like you are spending \$\$
 - (2) McDonald's did a study & decided to use credit cards because people buy more
 - vii) Difficult to redeem those miles, unless you are very disciplined & very flexible
 - viii) If you think you can outthink a multi-billion dollar company that does focus groups and psychological studies on your behavior patterns, go ahead.
- l) **Myth: Kids need a credit card to learn responsibility**
 - i) Card companies already target them because they are irresponsible
 - ii) Do you give them beer so they can learn to drink responsibly? Do you give them a sports car as their first car so they can learn to drive responsibly?
 - iii) Don't give your kids what they are NOT competent to handle.
 - iv) God does that with us (parable of talents). If we are NOT faithful with a little, He will NOT give us a lot.
- m) **Myth: Saving can be done later in life**
 - i) Need to save because something WILL happen. It always does, to everyone.
 - ii) There WILL be an emergency. There always is.
 - iii) Wow, that was unexpected.!
 - (1) It shouldn't have been.
 - (2) Expect the unexpected.
 - (3) Plan for it now.