



## online resources

Be sure to check out the special online features for this week.

- **Debt Snowball**

**Software:** Track your progress and calculate your DEBT FREE date!

- **Drive Free, Retire Rich:**

Discover the best way to buy a car.

## Review of the Last Section

1. What is a zero-based budget? Why is it important?
2. Name some of the reasons for doing a zero-based budget each month.
3. How did your first family budget session go?

## Discussion and Accountability

1. How old were you when you got your first credit card? How did that make you feel (at the time)?
2. What would it feel like to have absolutely no debt?
3. Think about all the money that is currently going out in the form of debt payments (credit cards, furniture, car loan, mortgage, etc.). What could you do with all that money every month if you actually got to keep it?
4. Do you currently have or have you ever had a debt CONSolidation loan? Did you discover that it really was a con?
5. Have you ever believed or spread any of the myths covered in this lesson? Which ones?
6. Why is “gazelle intensity” so important in getting out of debt?
7. What is your reaction to the phrase, “the borrower is *slave* to the lender”?
8. Do you have any questions about the debt snowball? If so, be sure to post your questions in this lesson’s discussion forum.

## Homework

1. **Complete the Credit Card History form** and use it as a guide as you start to close those accounts as soon as possible.
2. **Write out your Debt Snowball** and get ready to dump your debt! Use the Debt Snowball form or the Debt Snowball tool in the “Money Tools” area of the site.
3. **Financial Peace Revisited:** Read chapters 7 and 8.







## Debt Snowball (Instructions)

Now it's time to knock out that debt! List your debts in order, from the smallest balance to the largest. Don't be concerned with interest rates, unless two debts have a similar payoff balance. In that case, list the one with the higher interest rate first. As you start eliminating debts, you'll start to build some serious momentum. These quick wins will keep you motivated, so you'll be able to stay on track.

The idea of the snowball is simple: pay minimum payments on all of your debts except for the smallest one. Then, attack that one with gazelle intensity! Every extra dollar you can get your hands on should be thrown at that smallest debt until it is gone. Then, you attack the second one. Every time you pay a debt off, you add its old minimum payment to your next debt payments. So, as the snowball rolls over, it picks up more snow. Get it?

Redo this sheet every time you pay off a debt so that you can see how close you're getting to total debt freedom. Keep the old sheets for encouragement—or to wallpaper the bathroom in your debt-free house someday!

The "New Payment" is the total of the previous debt's payment PLUS the current debt's minimum. As these payments compound, you'll start making huge payments as you work down the list. To factor in interest rates and calculate the exact date you will become DEBT FREE, use our online debt snowball tool at [daveramsey.com/fpumember](http://daveramsey.com/fpumember) (available throughout your 13-week FPU class).



## Credit Card Crumbs

- The total American consumer debt is more than \$2.7 trillion.
- The average household credit card debt has increased approximately 167% in the past 17 years.
- There are over 1.3 billion credit cards in circulation in America.
- The credit card industry mails out over six billion credit card offers each year, sending an average of six offers a month to each American household.
- 45% of American cardholders make only the minimum payments on their consumer debt.
- The average balance per credit card-holding household is more than \$9,300.
- It would take over 13 years to pay off the average credit card balance if only making minimum monthly payments of 4% at an average interest rate of 15%.
- Credit card interest rates are often raised when a cardholder takes out a new loan, such as a mortgage, car loan, or other type of credit account.
- A single, first offense late payment can immediately raise a cardholder's interest rate as high as 34%. A "late payment" is defined as anything that posts after 2:00 p.m. on the due date.
- In addition to increasing the cardholder's interest rate, a card issuer can charge a fee of typically \$29-39 for a late payment.
- The credit card industry takes in \$43 billion per year in additional, unexpected fees from the consumer, such as late payment, over-the-limit, and balance transfer fees. Late fees alone bring in more than \$11 billion.
- Overall, American households spend over \$412 billion in credit card charges each year.



**Myth:** Debt is a \_\_\_\_\_ and should be used to create prosperity.

**Truth:** 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.

*How much could you \_\_\_\_\_, invest, blow, and \_\_\_\_\_ if you had no payments?*

## Steps Out of Debt

1. Quit \_\_\_\_\_ more \_\_\_\_\_!
2. You must \_\_\_\_\_ money.
3. \_\_\_\_\_ really works.
4. \_\_\_\_\_ something.
5. Take a part-time \_\_\_\_\_ or \_\_\_\_\_ (temporarily).

### Baby Step 2™

**Pay off all debt using  
the \_\_\_\_\_.**



“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 (NKJV)

**Myth:** The home equity loan is good for \_\_\_\_\_ 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 is a \_\_\_\_\_.

**Truth:** Debt consolidation typically saves \_\_\_\_\_ or \_\_\_\_\_ interest because you will throw your low interest loans into the deal.

**Truth:** You can't \_\_\_\_\_ your way out of debt.

**Truth:** Smaller payments equal more \_\_\_\_\_ in debt.



“If you want to get yourself better off financially, QUIT BUYING THINGS!”

– Anonymous

**Myth:** You need a credit card to \_\_\_\_\_ a car or to make \_\_\_\_\_ online or by phone.

**Truth:** A \_\_\_\_\_ card will do all of that, except for a few major rental companies. Check in advance.

**Myth:** “I pay mine off every \_\_\_\_\_ with no annual fee. I get brownie points, air miles, and a free hat.”

**Truth:** A recent Dun and Bradstreet study found that when you use plastic instead of cash, you spend \_\_\_\_\_% more because spending cash hurts. So what if you get 1% back and a free hat?

**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.





**Myth:** I'll take out a 30-year mortgage and pay \_\_\_\_\_, I promise!

**Truth:** Life happens! Something else will always seem more important, so almost no one pays extra every month. Never take more than a \_\_\_\_\_ fixed-rate loan.

### 30 Year vs. 15 Year Mortgage at 6%

		PAYMENT	TOTAL	PAY BACK
Home Purchased	\$250,000	30 years	\$1,349	\$485,636
Down Payment	<u>\$ 25,000</u>	15 years	<u>\$1,899</u>	<u>\$341,762</u>
Mortgage Amount	\$225,000	Difference	\$ 550	\$143,874

***You Save More Than \$143,000!***

**Myth:** It is wise to take out an \_\_\_\_\_ or a \_\_\_\_\_ mortgage if "I know I'll be moving."

**Truth:** You *will* be moving when they \_\_\_\_\_.



Find out the truth about how much that brand new car really costs you in the long run.

Check out "**Drive Free, Retire Rich**" in this lesson's online resources.

**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*, *Smart Money* magazine, and a good calculator will tell you that the car lease is the most \_\_\_\_\_ way to finance and operate a vehicle.

**Truth:** If you own a business, you can write off your \_\_\_\_\_ car on taxes without paying payments for the privilege.

**Truth:** The way to minimize the money lost on things that go down in value is to buy slightly \_\_\_\_\_.

**Myth:** You can get a good deal on a \_\_\_\_\_ car.

**Truth:** A new car loses \_\_\_\_\_% of its value in the first four years. This is the largest purchase most consumers make that goes down in value.



If you do rich people stuff, you get rich.

If you do poor people stuff, you get poor.

It's really that simple.



"Owe no one anything except to love one another."

– Romans 13:8  
(NKJV)

**Myth:** Cash advance, rent-to-own, title pawning, and tote-the-note car lots are needed \_\_\_\_\_ for lower income people to get ahead.

**Truth:** These are horrible, \_\_\_\_\_ rip-offs that aren't needed and benefit no one but the owners of these companies.

**Myth:** Playing the lottery and other forms of gambling will make me \_\_\_\_\_.

**Truth:** The lottery is a tax on the poor and on people who can't do \_\_\_\_\_.

**Myth:** Car \_\_\_\_\_ are a way of life, and you'll always have one.

**Truth:** Staying away from car payments by driving reliable used cars is what the typical millionaire does. That is \_\_\_\_\_ they became millionaires.



“The rich rules over the poor, and the borrower is servant to the lender.”

– Proverbs 22:7 (NKJV)



### Quick History of Plastic:

- The credit card was born in 1950.
- The Bank Americard and American Express were created in 1958.
- The VISA brand was established in 1976.
- Discover entered the scene in 1986.



“It’s stupid to guarantee someone else’s loan.”

– Proverbs 17:18 (CEV)

## 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 \_\_\_\_\_.

**Myth:** If I loan money to a friend or relative, I will be \_\_\_\_\_ them.

**Truth:** The relationship will be strained or \_\_\_\_\_.

**Myth:** By \_\_\_\_\_ a loan, I am 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.