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Personal Finance

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Review of *The Total Money Makeover* by Dave Ramsey

Before investigating this book I wasn't too familiar with Dave Ramsey. I had seen his name on internet ads that advertised his books or radio show and even local billboards along the freeway that marketed his radio show, however, I didn't know anything more about him. To me he was that "get rich" guy. Although I felt that there were a lot of heavy and unnecessary religious overtones in this book, which almost made me want to stop reading, I am glad I continued through it. I thought that Mr. Ramsey's message was important. Too many of us are under the impression that we can have it all, and we can have it all right *NOW*. Half of that is true, we can have it all, but only if we work for it and it *will* take time.

While reading this book I was often reminded of Henry David Thoreau's *Walden*. How wanting more, and more, and more can lead to a life of quiet desperation. However nowadays things are quite a bit out of hand than they use to be. If you want something you can either work for it, or as most of us do (guilty!), we use credit to get it *now* and pay for it later. According to Ramsey, your worst enemy is your own denial, and finding yourself content and fine with where you are just fuels it further. His focus throughout the book is to work hard for what you want. It's not going to come easy but if you cut back and do the job, you will find yourself debt free before you know it. He says this based on his own experiences where twice he had to pick himself up from nothing. I think he pretty much summed it up when he said, "We cannot vision having a car without a payment, a house without a mortgage, a student without a loan, and credit without a card... our society lives on making payments towards things we cannot outright afford. Our view of debt is our barrier to success."

When it comes to personal finance Ramsey gives some very interesting advice. First you must jump the giant hurdle that is denial. Once you can identify that there is a problem you can understand what you need to do to rectify it. This applies to anyone with any amount of debt. After you overcome your denial your second hurdle is to recognize the myths that society has created. Some of the myths that he pointed out were that debt is not a tool. This was mostly regarding credit ratings and the impression we think we need to make to the credit bureaus. Another myth he debunked is cosigning on loans. It's not worth it because you are going to end up paying for the loan down the road. The banks ask for a cosigner because there is a very high chance in the first place that the applicant won't be able to make the payments. He suggests staying away from payday loan companies, that they are only there to distribute wealth from your pocket to their own. One myth that he debunked that surprised me was about car payments. Taking on a car payment is stupid to do. That money is better spent in a mutual fund growing interest rather than being wasted on a car. He suggests buying a rundown used car and slowly working your way towards that \$12,000 car.

The next hurdle that you must overcome is ignorance. Most people look at what their parents or friends do and assume that it's right. It only works when you figure it out for yourself. Your money situation is not going to be the same as your friends or parents. You must sit down, look at your own problems and then consider the possible solutions to get on track.

After debunking important myths Ramsey begins to outline plans we can use to get ourselves out of debt. This is something that we all can apply to our lives. The first step is to develop a budget. Easy! We already did that as an assignment for this class. I outlined a budget for the entire year of 2014. The second step is to get all of your accounts current. This means to pay any late bills and don't let any more get past due. Luckily I haven't been in a situation where I have missed payments on bills so I can skip this step. Third, build up a \$1000 emergency fund as fast as possible. This is important to have so that you can pay for unexpected occurrences and they won't set you back or put you in debt. I actually

started building a \$1200 emergency fund back in June and I am currently at \$1087 and I am on track to hit \$1200 by June. The fourth step is to pay off all your debts. He lets the exception be your mortgage. You must take a “snowball approach” to your debt. List your accounts smallest to largest and then pay each of them at their minimum payments, however on your smallest debt pay the most you can towards it each month. Once that debt is gone take what you were putting towards it and apply it to your next debt. This is an area that I personally need to work on. I have successfully paid off debts but after I am finished I don’t automatically move on to the next debt. The last step is to start saving in order to make “real purchases”. This comes after you have finished paying off your debts and now you can focus your “snowball approach” to your personal savings. Always stay on top of your emergency fund, but when that is at its max put away money for your mortgage down payment, or for a new car, or that new laptop you’ve been eyeing. When you do this, you can always pay for these things with money you actually have and not sink yourself into another pool of debt.

According to Ramsey’s view in this book, if everyone in our society went through these steps and began building their own wealth without having to get into debt, it would not be the end to our economy. He feel strongly that it would actually boost our economy and the government would be able to get out of the welfare business. I really doubt we will ever be able to test his theory. However in the meantime we can take his advice on how to build wealth and possibly the more people that become self-sufficient will help alleviate some of the stress currently on the government’s assistance programs. The few things he suggests is to start paying for retirement at about 15% of your income using IRAs and your work retirement plan. Second, and I didn’t quite understand where he was going with this, you should starting paying for your child’s education... but then he said that they should pay for school themselves. So it’s up to you to determine how much you want to contribute. The suggestion that I think is the most important one is paying of your home mortgage. He says you can get a mortgage without having to have your credit score checked by finding a mortgage company that does “actual

underwriting". He says you can get a mortgage if you have lived right by having your payments to your landlord ontime or early for the last two years, been in the same career field for two years, have a decent down payment, have no bad credit, and are conservative with what loan payment you choose to get (he suggests one that isn't over 25% of your take home pay). These five things will help you get a mortgage without a credit score if you find the right company.

When you look at the big picture of what this book is about, it's all common sense stuff. Spend less, save more, pay with cash out right, and stay out of debt. Follow that plan and you "will get rich slowly". I certainly agree with his philosophy and would definitely suggest this book to anyone that wants to get their finances on the right track. I need to go through this book again at a more leisurely pace so I can take all of his quizzes and see where I stand. I hope to someday become ~~physically~~ (well that too... but) fiscally fit.